SECOND MEETING ON THE CONDITION OF THE BANKING SYSTEM

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

NINETY-FIFTH CONGRESS

SECOND SESSION

ON

THE SECOND REGULAR OVERSIGHT MEETING ON THE CONDITION OF THE BANKING INDUSTRY

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SECOND MEETING ON THE CONDITION OF THE BANKING SYSTEM

THURSDAY, MAY 25, 1978

U.S. Senate,
Committee on Banking, Housing, and Urban Affairs,
Washington, D.C.

The committee met at 10 a.m. in room 5302, Dirksen Senate Office Building, Senator William Proxmire (chairman of the committee) presiding.

Present: Senators Proxmire and Schmitt.

OPENING STATEMENT OF CHAIRMAN PROXMIRE

The Chairman. The committee will come to order. This morning we hold our second meeting on the condition of the banking system. We welcome Chairman Miller as the opening witness. As you know, the then Chairman Burns of the Federal Reserve recommended last year that this committee hold hearings once or twice each calendar year on this subject. I am hopeful that we can work these hearings into the committee's schedule in the early spring and fall. It's important that the Congress and the public be fully informed of the condition of the banking system.

A safe and sound banking system is essential to a well functioning domestic and international economy. Banks must take risks in making loans but they must prudently assess the risks they take. Managing a bank without a prudent regard for risks leads to bank weaknesses which inhibit bank services to the community.

The best safeguard is an adequately capitalized banking system backed up by regulators who are not reluctant about using their powers to abate unsafe or unsound banking practices.

When Chairman Burns testified he frankly admitted that banks were not adequately capitalized and the system has further deteriorated, particularly among the largest banks, those with assests over $5 billion. It seems to me that Chairman Burns suggested an 8-percent ratio between capital and total assests as a rule of thumb, and on December 31, 1976 national banks in the size category over $5 billion had a capital to total asset ratio of 4.83 percent and total capital to risk assests was 6.4 to 7 percent. As of 1977 these percentages had worsened.

We are now 3 years into an economic recovery. Bank capital ratios have improved only slightly since 1974. Now they appear to be trending slightly down. I am concerned that the banking system may not be rebounding as it should in this period of economic recovery.

Other indicators give rise to a similar concern. According to the FDIC classifications, insured problem banks increased from 280 with $25 billion in assets at the end of 1975 to 301 banks with $74 billion in assets at the end of 1976; 286 banks with $278 billion in assets at the end of 1977, down slightly from 290 banks with assets of $190 billion in mid-year 1977. Classified assets as a percentage of capital have not improved, whereas at the end of 1976 classified assets represented over 100 percent of capital of such banks, most recent data shows for State member and national banks the percentage remains high—improved slightly, from 96 to 81 percent respectively.

If the banking system does not recover sufficiently in this period of recovery, what will be the consequences for the financial system and the economy in the future? Is the regulatory system capable of doing the job that needs to be done to insure a healthy banking system? Are there significant legislative needs that the Congress needs to address?

I hope we can have a fruitful discussion on these matters this morning.

OPENING STATEMENT OF SENATOR SCHMITT

Senator SCHMITT. Mr. Chairman, it is a pleasure to have an opportunity to discuss the condition of the banking system with the distinguished witnesses here today.

The health of the banking system is dependent not only upon the activities of the marketplace and the condition of the economy as a whole, but very significantly upon the actions of the Federal Government, and particularly the Congress.

The recent committee action on electronic funds transfer legislation is a case in point. Although there is no record of abuse in this area, the committee was called upon to act with urgency. Apparently, after running out of other things to regulate, we must turn to problems that exist only in the minds of politicians. EFT is an extremely complex, little known area, and although the committee had many sessions devoted to considering this bill, I was left with the impression that there is still a great deal about this subject that Congress should know before enacting legislation that will result in further regulation of the national banking system.

In particular, I am concerned with the absence of any cost-benefit analysis of legislation such as this and its economic and judicial impact on the country as a whole. I think we need a great deal more information to deal with complex areas like this if Congress is to avoid passing legislation as we have so often in the past, that is going to cause more problems than it seeks to cure.

My major concern is that, in general, much Federal regulatory activity takes place in a near-vacuum. While members of Congress may be familiar with the basic provisions of legislation, once it is passed, it is often forgotten, and the great task of issuing regulations and enforcing them goes on in a hidden realm that is inaccessible to much of the public, and much of Congress as well. I am referring, of course, to the bureaucracy. It is time for the costs of this regulatory process to be brought out into the light where it can be seen by all.

I have recently introduced a bill, S. 2011, the Regulatory Reduction and Congressional Control Act of 1978, which would require major regulatory initiatives to be submitted to Congress, along with economic, judicial and paperwork impact statements. These impact statements for major regulations could then be reviewed by the appropriate committee, and perhaps referred to the General Accounting Office for a thorough analysis and impact modeling to determine the overall, long-term effect on the economy and the public of legislation passed by Congress.

For many legislators, I feel this could be a sobering experience that may temper, somewhat, the prevailing sentiment in this body to regulate every conceivable aspect of the economy.

Because this procedure for handling Federal regulations will impact upon each of your institutions, I will provide you with copies of this legislation, and will ask for your comments for the committee's record.

The cost of regulating the American economy has been estimated to be over $100 billion a year, according to a recent study for the Joint Economic Committee by Dr. Murray Weidenbaum of Washington University. It is time for Congress to take notice of these costs and to take them into account in considering legislation.

The CHAIRMAN. Mr. Miller, welcome, and I look forward to your testimony.

STATEMENT OF G. WILLIAM MILLER, CHAIRMAN, FEDERAL RESERVE BOARD

Mr. MILLER. Thank you very much, Chairman Proxmire.

Governor Coldwell and I appreciate the opportunity to be here. We have submitted testimony which I suggest be included in full in the record. I would like to highlight——

The CHAIRMAN. I would appreciate that. The statement will be printed in full in the record and you may proceed any way you wish.

Mr. MILLER. Then perhaps I can hit a few highlights and move on to a discussion which might be more interesting; I can respond to your questions and interests, rather than try to take too much of your time repeating what is already in the formal statement.

We do share with you the feeling that these are helpful hearings, and we do believe it will be helpful to continue this process. The banking system is too important to our Nation to overlook the opportunity for a continuing dialog and discussion about its condition.

We are going to divide our presentation this morning into two parts. I'd like to cover some of the broader issues and Governor Coldwell will give you a more detailed report.

The first thing I would like to comment on is the changes that have been taking place in the banking system—a few of the factors that are influencing the banking industry and affecting its conditions.

One of these factors is, of course, the rapid development of multinational activities. The more interdependent world economy has led to more multi-national banking. U.S. banks have substantially expanded their service offerings and have increased the number of locations where they provide services.

Now, in one way, this can be a positive development because it does open up new profit opportunities for U.S. banks which can strengthen their capital ratios. It also permits a degree of diversity which can reduce their risks. On the other hand, there can be some negative aspects to this development, because in expanding into international markets, banks are taking on new kinds of risks—currency risks and country risks—and such expansion into new and more complex areas does stretch the capacity of management.

Another factor influencing the banking industry is that conditions have become more competitive: there's more interregional competition; there's more competition, obviously, with foreign banks as U.S. banks increase operations abroad; and there's also more competition from foreign banks in the United States. So there is a general increase in competition.

Beyond that, there's been a gradual homogenizing of the entire financial sector. Savings and loan associations, mutual savings banks and credit unions are becoming, in many ways, more like banks. So there's increased competition not just within commercial banking, but also among financial institutions.

Obviously, increased competition can be valuable for customers. But from the point of view of banks, it does put more downward pressure on profit margins. This makes it hard to build up capital/assets ratios along the more desirable lines you were mentioning; profit margin pressures mean that it's going to take additional effort and ingenuity and innovation to strengthen the banking system.

The third change is that we have had a more hospitable economic environment in recent years. As you mentioned, we are in the third year of recovery, and banks have been able to benefit from a better environment. But during the earlier years of the 1970s, the environment was quite difficult: in the recession of 1974–75, banks did experience large loan losses and they did have to reexamine some of their practices in order to return to a more conservative philosophy in the light of the economic environment.

To those brief comments, I'd like to add that the Board's overall assessment of the current condition of the banking system is that it is good—not very good and not excellent—but good. The reason for the continuing improvement is, first, that we do have a healthier economy; and second, that bankers have been more conservative, paid more attention to their capital ratios, and tried harder to work out troubled loans. Finally, bank supervisors can take some credit for more diligent efforts that have helped improve the banking system.

Despite the fact that the condition of the banking system, is good, there are still some problems. There are too many problem banks today, and there are too many troubled loans in bank portfolios.

Another important challenge is posed by the continuing erosion of membership in the Federal Reserve System. Over the past 5 years 254 banks have left the System, and the proportion of total bank deposits held by member banks has dropped from 77 percent to 72 percent.

The increased willingness of banks to drop their membership in the Federal Reserve System has a simple cause. It's just too costly to be a member. Member banks are required to hold a significantly larger portion of their assets in nonearning cash reserves than are other banks and savings institutions. In this period of inflation and increased completition between banks and other institutions in providing payment services, the burdens of membership is particularly severe.

Fair competition among member banks and other depository and credit institutions require that this membership burden be eliminated. If it is not, we can expect a continued, and probably an accelerated, erosion of membership in the Federal Reserve. This threatens to weaken our financial system as more and more of the nation's payment and credit transactions are handled outside the safe channels of the Federal Reserve, as fewer and fewer banks have immediate access to Federal Reserve credit facilities, as a national presence in bank supervisory and regulatory functions becomes increasingly diluted, and as the implementation of monetary policy becomes more difficult.

With these brief comments on the general situation, I would like to ask Governor Coldwell to report in more detail.

The CHAIRMAN. Governor Coldwell, we are delighted to have you. I didn't mean to omit you in our welcome. You are always an excellent witness and you're a brilliant man. You have testified with great benefit to the committee many times. Go right ahead, sir.

STATEMENT OF PHILIP E. COLDWELL, GOVERNOR, FEDERAL RESERVE BOARD

Mr. COLDWELL. Thank you, Mr. Chairman. I will try to condense the 14 or 15 pages of my formal statement to highlight a few points.

First, I will review the principal indices of bank soundness: We are talking here about bank asset quality, liquidity, capital and earnings.

With regard to bank asset quality, during 1977, the amount of classified assets of insured banks declined about 10 percent after more than tripling between 1973 and 1975.

[Complete statement and charts of Mr. Miller and Mr. Coldwell follow:]

Statement by

G. William Miller

Chairman, Board of Governors of the Federal Reserve System

and

Philip E. Coldwell

Member, Board of Governors of the Federal Reserve System

Governor Coldwell and I appreciate the opportunity to appear before this Committee today to testify on the condition of the U.S. banking system. Before commencing our testimony, I want to emphasize the Board of Governors' support for these annual hearings. The Board believes that the impact that our banking system has on our economy is too important to go without periodic review and hopes that hearings of this kind will add to the public's understanding of the banking system and will enable all of us to view specific problems in a better perspective.

The Board's testimony today will be in two parts. In the first part, I will discuss several fundamental changes taking place in the banking environment, and will present, in general terms, the Board's current assessment of the condition of the banking system. In the second part of our testimony, Governor Coldwell will review in greater detail recent trends in the principal indices of bank soundness.

Perhaps the factor that has resulted in the most far reaching changes to the banking environment has been the rapid development of a more interdependent world-wide economic system. This modern-day phenomenon was brought about by improvements in communications, transportation and by the uneven distribution of resources among countries. Responding to the opportunities afforded by the global economy, American banks have substantially expanded their service offerings and have increased greatly the number of locations at which these services are provided.

Accelerating demands for new banking services can have both positive and negative implications for bank soundness. On the plus side, they can open up important new profit opportunities. For example, some American banks that blazed the trail in international banking have found this area to be particularly profitable and now derive a substantial amount of their current earnings from this source. Moreover, developing new products and serving additional geographic areas enable banks to diversify their operations, thereby reducing risk.

On the other hand, serving new product and geographic markets can present problems. Such expansion requires bankers to acquire new skills and to assimilate a great deal more information. It also requires bankers to cope with new types of risks. For example, the expansion of U.S. banks abroad has required management to deal with such forms of risks as country risk and foreign-exchange risk.

A second major change in the banking environment in recent years is that banking has become considerably more competitive. This trend is evident almost everywhere we look. We see the large money-center banks opening loan production offices throughout the nation and competing against the large regional banks for business loans.

We see banking organizations, through the holding company structure, expanding throughout much of the nation to serve local mortgage and consumer lending markets. We also see large U.S. banks competing more and more with large foreign banks in the major financial centers abroad. And, finally, we have seen foreign banks enter the U.S., sometimes on a more favorable basis, and win a significant portion of the business loan market.

In addition to this increasing competition within commercial banking, we are witnessing a gradual homogenizing of the entire financial sector. Little by little, savings and loan associations, mutual savings banks and credit unions are becoming more like banks as limiting legislation is removed and new ways to avoid restrictive barriers are found. To a lesser extent, banks are also experiencing increased competition from other types of financial institutions and even from some firms outside the financial sector.

This constantly increasing competitive environment is certainly desirable for bank customers. But for banks, increased competition may exert downward pressure on profit margins. With profit margins falling, banks in recent years have had the option of accepting these lower margins or taking greater risks in order to maintain them. Banks have responded by doing both.

Finally, during the 1970s, banks also have had to operate in a much less hospitable economic environment than during the two previous decades. This was most dramatically demonstrated by the deep recession in 1974-75 when banks experienced large loan losses and had to contend with the only significant erosion of public confidence in banks in several decades. However, the banking system did weather the problems of the mid-1970s, and since then bank managements have become more conservative in their philosophy and operations. Yet, given the key role that banks must play in financing our economy, there are obvious limitations in the adjustments that managements can make. Consequently, if the domestic and international economy in the future should continue to exhibit the degree of instability of the 1970s, we must expect that some banks will experience occasional problems.

Having discussed some of the recent fundamental changes in the environment in which banks operate, I would like to turn to the Board's overall assessment of the current condition of the banking system. During last year's testimony, Chairman Burns stated that the condition of the banking system had improved during 1976. I am happy to report that--by most traditional measures--this improvement continued during 1977 and into early 1978. Moreover, in the Board's judgment, the banking system today is in good condition.

Probably the most important factor accounting for the improvement in banking in the last year or so has been the continued expansion of the economy. Last year, real gross national product

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rose almost 5 percent, after rising 6 percent the previous year. This steady expansion in the economy clearly played a role in the decline in bank failures in 1977 to only six.

But the improvement in the condition of the banking system has been due to more than a healthier economy. In the past several years, bankers have demonstrated a more conservative approach to lending, capital and liquidity than they exhibited during the early 1970s. Moreover, bankers have been diligent in trying to work out the large amount of loans that became troublesome during the recent recession. Finally, I believe that bank supervisors can claim some credit for the improvements in banking. During the last few years, they have used a variety of measures to persuade individual banks to strengthen their financial conditions and to avoid unwarranted expansion.

So far I have painted a rather positive picture of recent trends in the condition of the banking system. However, I want to emphasize that problems and challenges still remain. The number of problem banks is still large by historical standards and the volume of troubled loans in bank portfolios is still uncomfortably high. These and other problems will continue to require the close attention of both bankers and bank supervisors.

Another important challenge is posed by the continuing erosion of membership in the Federal Reserve System. Over the past five years, 254 banks have left the System, and the proportion of total bank deposits held by member banks has dropped from 77 percent to 72 percent.

The increased willingness of banks to drop their membership in the Federal Reserve System has a simple cause. It is just too costly to be a member. Member banks are required to hold a significantly larger proportion of their assets as non-earning cash reserves than are other banks and savings institutions. And in this period of inflation and increased competition between banks and other institutions in providing payments services, the burden of membership is particularly severe.

Fair competition among member banks and other depository and credit institutions requires that this membership burden be eliminated. If it is not, we can expect a continued, probably an accelerated, erosion of membership in the Federal Reserve. This threatens to weaken our financial system, as more and more of the nation's payments and credit transactions are handled outside the safe channels of the Federal Reserve, as fewer and fewer banks have immediate access to Federal Reserve Bank credit facilities, as a national presence in bank supervisory and regulatory functions becomes increasingly diluted, and as implementation of monetary policy becomes more difficult.

I have now completed my general remarks. Governor Coldwell will now present the balance of the Board's testimony.

Mr. Chairman, I would first like to review recent trends in the principal indices of bank soundness. These indices include bank asset quality, liquidity, capital and earnings. In our judgment, an understanding of trends in these indices is crucial in evaluating the current condition of the banking system and formulating bank supervisory policy.

The quality of bank assets is reflected by the volume of assets classified by bank examiners and by the volume of non-earning assets being carried by banks. During 1977, the amount of classified assets of insured banks declined by about 10 percent, after more than tripling between 1973 and 1975. Moreover, the amount of assets classified by examiners as doubtful and loss--the two most serious classifications--declined by about 20 percent. Banks with assets exceeding $5 billion experienced a slightly greater relative decline in classified assets than did the rest of the banking system. However, these large banks still have a much higher level of classified assets relative to their capital than do other banks.

Other measures of bank asset quality also have shown marked improvement. Available data indicate that nonperforming assets (which include non-accruing loans, renegotiated loans, and real estate acquired in foreclosure) fell roughly 15 percent last year--despite a 13 percent rise in total bank assets.

The major asset problem still facing banks is troubled real estate loans. Many of these loans were made during the real estate boom of the early 1970s to finance projects that became at least temporarily difficult to market. Many banks have been forced to carry large amounts of these loans on a non-earning basis, thereby depressing their earnings. During 1977 and early 1978, the demand for these real estate projects continued to pick up, and as projects were sold off, the quality of bank real estate portfolios improved. This progress, however, has been slow, and still more time and improvement in certain segments of the real estate sector will be required before these loans are worked down to a more reasonable level.

At present, the banking system appears to be in a satisfactory liquidity position, partly due to a sizable build-up in U.S. Government securities during 1975 and 1976. Last year, however, bank liquidity decreased. First, banks significantly increased their reliance on relatively volatile liabilities such as large time deposits and Federal funds. In addition, banks slightly reduced their holdings of securities with maturities of less than one year.

From the end of World War II through 1974, bank capital ratios declined almost steadily. Moreover, this decline picked up momentum during the early 1970s when rapid asset growth, particularly abroad, far outdistanced the growth of capital. It was during this period that the capital ratios of some of the Nation's major banks declined to what we regard as undesirably low levels.

Since 1974, however, bank capital ratios generally have improved--rising sharply in 1975, climbing somewhat more in 1976, before declining moderately last year. A primary factor in last year's decline was the rapid 13 percent growth in bank assets.

In recent years, banks have relied principally on retained earnings to build up their capital. In the aggregate, banks typically retain about 60 percent of their net income. Recently, most external financing of banks has been supplied by bank holding companies, which now own almost all of the Nation's largest banks. These holding companies in turn have resorted largely to long-term debt issues to obtain funds. One reason for their heavy reliance on long-term debt, at least since 1974, is that the market value of bank holding company stock has been depressed. Even today, the stocks of many of the Nation's largest holding companies are selling at only six to eight times earnings, and many also sell well below book value. These unfavorable market conditions have made it very costly for these organizations to add to their equity capital through the sale of common stock. As an alternative, several large holding companies have recently resorted to issuing preferred stock.

Another key factor in determining the condition of the banking system is bank earnings. Last year, earnings were impressive, with net income of insured banks up 13 percent over the 1976 level. Several factors were primarily responsible for this performance. The first was the rapid growth in earning assets, with loans alone up over 15 percent. Second, provisions for loan losses declined about 11 percent, reflecting an even sharper drop in actual net loan charge-offs. Third, the amount of loans on which interest was not accruing was reduced significantly.

It should be pointed out to the Committee that the favorable earnings presented by the banking data are based on generally accepted accounting principles which do not take adequate account of inflation. As you know, inflation erodes nominal monetary values, including bank capital, assets, and liabilities.

The one major factor that hindered earnings last year was narrower spreads between yields on earning assets and the cost of funds. For example, the spread between the prime rate, which banks charge their best domestic customers, and the rate that banks pay on their large certificates of deposit averaged 1.3 percentage points during 1977, compared to 1.7 percentage points during the prior year. Banks also experienced some reduction in spreads on their foreign business during 1977. These reductions in spreads, both here and abroad, are evidence of increasing competition among financial institutions.

During the first quarter of this year, banks continued their strong earnings performance in nominal terms. While complete data are not yet available, net income appears to have increased by about 20 percent over the first quarter of 1977. Declining loan loss provisions and a reduction in nonperforming assets again accounted for part of the improvement. But foreign exchange operations also contributed strongly to increased profits for some large banks.

Having briefly reviewed the principal indices of bank soundness, I would now like to turn to several potential problem areas that have recently received considerable public attention. The first area is the agricultural sector, where net income from farm operations last year was about one-third below the prosperous years of 1973-74. This decline has been due both to escalating costs of production and to declines in commodity prices. In contrast to declining income, farm debt has risen by about 60 percent since 1974.

These unfavorable financial trends have made it difficult for some farmers to service their debt. As a result, some farm banks have experienced slower loan repayments and increased requests for loan extensions. So far, however, farm banks have not experienced a serious deterioration in the quality of their loan portfolios. Moreover, while the loan-to-asset ratios of many of these banks are significantly higher than normal, these banks generally have not encountered serious liquidity problems. In sum, most farm banks are now in satisfactory condition and should continue to prosper, assuming that the recent squeeze on farm profits does not continue for an extended time.

Another area of concern is the financial condition of New York City. As we all remember, the near-default of New York City in 1975, following the severe recession and the failure of several large banks, sent shock waves throughout the financial community. Since 1975, New York has made considerable progress toward putting its financial house in order. However, it has not been able to regain access to capital markets, and since 1975 it has had to rely on the Federal Government for financial support in the form of seasonal loans. Continuation of some form of Federal aid beyond this June is now being considered by the Congress.

In order to determine the exposure of U.S. banks to a possible default by New York City on its obligations, the three Federal bank supervisory agencies, in early 1978, completed a survey of the ownership of New York securities by commercial banks. The obligations covered included those issued by New York City, by New York State, by New York State agencies, and by the Municipal Assistance Corporation.

Briefly, the early 1978 survey indicated that 306 banks held New York securities exceeding 20 percent of equity capital. New York City obligations held by these 306 banks totalled $554 million while Municipal Assistance Corporation obligations amounted to $1.7 billion. In sum, while the number of banks with large holdings of New York City-related securities has declined substantially since an earlier survey in late 1975, it still remains sizable.

In analyzing the potential impact of a default on banks that hold New York City securities, it is important to recognize that a default on an obligation by a State, municipality, or related agency need not lead to a loss of all, or even a sizable part,of the bonds' principal value. Unlike a business firm, which may not survive a default, a governmental entity will continue to exist, it will still have tax revenue, and the default will have to be cured in some manner so that the unit can regain its financial standing.

I would now like to turn away from these domestic problem areas and move to the international activities of our banks. As you will remember, a considerable amount of attention was given to this sector of operations in last year's testimony. That review focused on the elements that contributed to the substantial expansion of the role of U.S. banks in international lending both from offices here and through offices abroad. In the context of that review, some concern was expressed about the rapidity with which international loan portfolios were being expanded and the enlarged risk exposure of our banks.

International lending by U.S. banks again increased substantially in 1977. However, data indicate a slowing in the growth rate of that lending compared with the previous year's. Total foreign assets at domestic offices and foreign branches of U.S. banks increased about 14 percent in 1977, about half the average growth rate for the three preceding years. The slower rate of growth was most marked in lending in major financial centers and to non-oil developing countries. A number of countries to which U.S. banks have traditionally been large lenders reduced their demands for international credits as the result of measures taken in those countries to restore a greater measure of internal financial stability and a better balance in their external payments.

U.S. banks also appear to have been more cautious in their international lending during 1977 than in prior years. This is a welcome and a salutary development. As was emphasized a year ago, U.S. banks have a major continuing role in international lending and financing. Also, so long as the present substantial imbalances in world payments persist, there will be a sizable financing role for the multinational banking system, in which U.S. banks play such an important part. In this environment, it remains essential that U.S. banks in their international credit activities exercise high standards of banking prudence. To do so entails maintaining suitable diversification of their international loan portfolios. It also calls for the banks to obtain full information about the capabilities of individual foreign borrowers and of borrowing foreign countries to service external indebtedness.

In the last year, U.S. bank supervisory authorities have made considerable progress in adding to the information available on the external lending of U.S. banks. A new comprehensive report--jointly developed by the Federal Reserve, the Comptroller of the Currency and the Federal Deposit Insurance Corporation--now periodically obtains information from the major banks about the country distribution of their international loan portfolios with breakdowns by broad category of customer and by maturities. This information is structured to provide a better assessment of the country risks in the banks' international loan portfolios. As such, it allows the banking agencies to be more watchful about these risks in individual banks.

Aggregate data from the first country exposure survey, which was conducted in June, 1977, was released early this year. This survey included all U.S. banks with total assets exceeding $1 billion. These banks reported having, in aggregate, $164 billion in claims on foreigners which were denominated in currency other than that of the foreign country. They also had an additional $45 billion in local currency claims that were largely funded by local deposits. Seventy percent of these $209 billion of claims were on, or were guaranteed by, residents of developed countries, usually Group of Ten countries.

The survey also showed that banks had $46 billion of credit outstanding to non-oil producing less developed countries (LDCs) and Eastern European countries. This amounted to about 6.5 percent of the total assets of these banks.

In December of last year, the second survey of the foreign lending of U.S. banks was conducted, and the results should be available shortly. This survey will furnish valuable information to the banks in their own efforts to assess, control and monitor their international lending. In addition to the survey results, cooperative efforts among central banks and international institutions are continuing to add to the information available to commercial banks about external borrowings and external indebtedness of the main borrowing countries.

While country risk is a proper subject for concern, perspective must be maintained on the country exposures of U.S. banks. Actual defaults by countries on their external debts, public or private, have been rare in recent experience. The risks to the banks, therefore, are less in terms of ultimate collectibility of credits than in terms of liquidity and income resulting from possible failure of countries to service properly their external borrowings.

While the recent, slower pace of international lending by U.S. banks and the apparent heightened sense of caution in that lending are healthy developments, there are still several areas for concern. First, a few countries to which U.S. banks have made loans are having serious economic and financial problems and are having difficulty in servicing their external debts promptly. Second, some U.S. banks have a rather sizable exposure in individual countries relative to their capital and reserves. Finally, interest rate spreads on some recent international loans have narrowed and maturities have lengthened to an extent where the return to banks may not be commensurate with the risks involved. This development is somewhat worrisome because international earnings now comprise a substantial portion of the total earnings of our largest banks and because earnings remain the principal source for strengthening their capital positions.

Before concluding this testimony, I would like to inform the Committee what the Federal Reserve has done in the last year to improve our policies and procedures for supervising state member banks and bank holding companies. Some of these changes have resulted from problems that had surfaced in recent years. In November, 1977 the Board approved an expanded program for the inspection of large bank holding companies. The two essential elements of the program are an increased frequency of inspections and the standardization of the inspection report.

All bank holding companies with consolidated assets in excess of $300 million will now be inspected annually--unless nonbanking activity and parent company debt are considered minimal, in which case inspections will continue to be conducted once every three years. The impact of the increased frequency of inspections will be approximately to double the number of large holding companies inspected on an annual basis and to increase the percentage of total holding company assets inspected annually from about 45 percent in 1976 to 85 percent when the program is fully operational.

The standardization of the report form is expected to provide a variety of benefits, including the framework for a comprehensive review of nonbank assets and holding company debt levels, greater consistency, an increase in the on-site efficiency of the inspection process, the capacity for centralized training of inspection personnel, and the ability to allocate personnel more efficiently among the Reserve Districts.

During the past year, the Board, in conjunction with the Reserve Banks, has implemented a bank surveillance system that aids in the identification of actual and potential financial problems of banks. In addition, several new bank holding company surveillance capabilities were developed to enhance existing screening techniques, data collection systems, and analytical reports. Recently, resources have been devoted to improving supervisory reports used in the surveillance process, to streamlining the reports so as to reduce reporting burden on respondents, and to expediting the use of the data.

I want to emphasize that 1977 saw further accomplishments in interagency cooperation and standardization of procedures. Central to the success of this effort was the formation of the Interagency Supervisory Committee in March of 1977. This Committee, which is an adjunct of the Interagency Coordinating Committee, consists of the senior supervisory officials of the Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, Federal Home Loan Bank Board, National Credit Union Administration, and Board of Governors of the Federal Reserve System. The purpose of the Committee, which meets monthly, is to review supervisory issues and practices and to develop wherever possible uniform policies and procedures. During its first year of operation, the Committee inaugurated the uniform shared national credit program in which a team of examiners from the three agencies annually reviews loans in excess of $20 million that are shared by two or more banks. Such review eliminates the need for a separate analysis of the loan at each participating bank and leads to consistent treatment by examiners. Second, agreement among the agencies has been reached on the definition of a concentration of credit. This agreement will insure a consistent treatment of credit concentration by the three agencies in future years. Third, staff of the three agencies have agreed on the principles of a uniform system for rating all banks, and each agency is currently testing the system.

In closing, Mr. Chairman, I would like to restate the central thesis of our testimony--that while continued vigilance is still necessary, the condition of the banking system is now good and, by most measures, is better than it was at the time of last year's hearings.

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Chart 1

NUMBER AND TOTAL ASSETS OF STATE MEMBER BANKS WITH COMPOSITE 3 OR 4 RATINGS, 1972-77

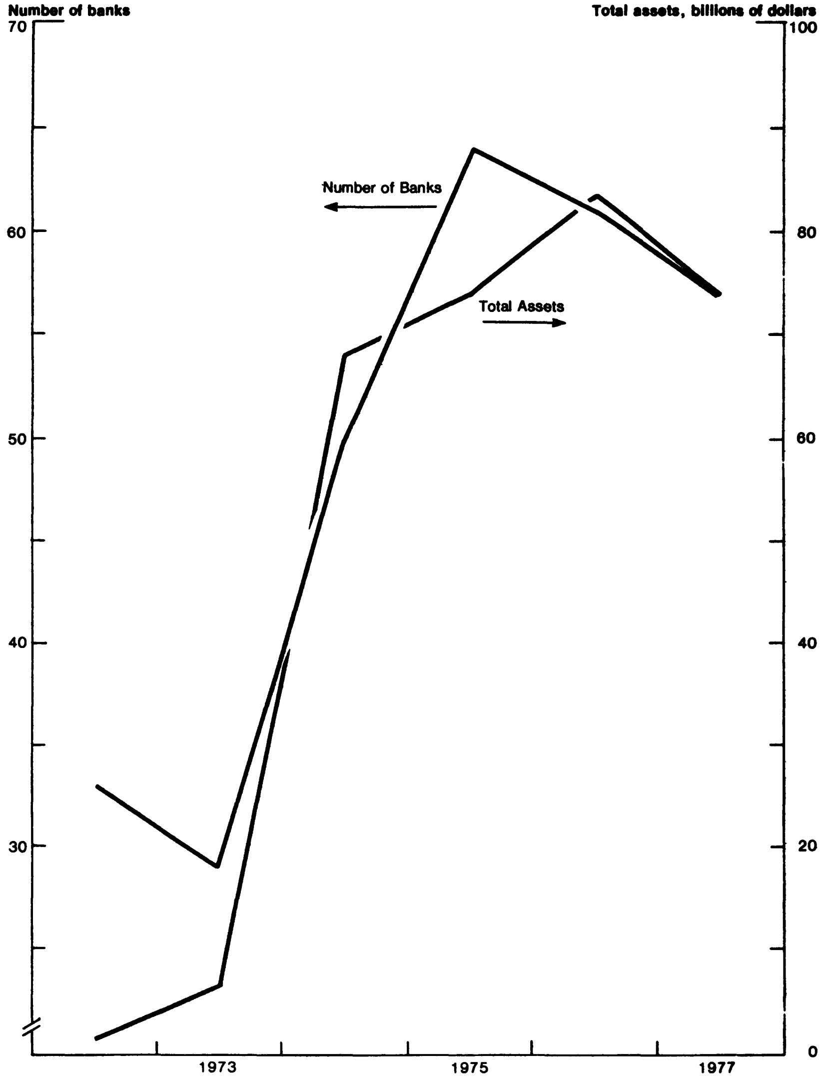


Chart 2

AMOUNT AND GROWTH OF TOTAL ASSETS AND TOTAL LOANS OF ALL INSURED COMMERCIAL BANKS, 1970-77

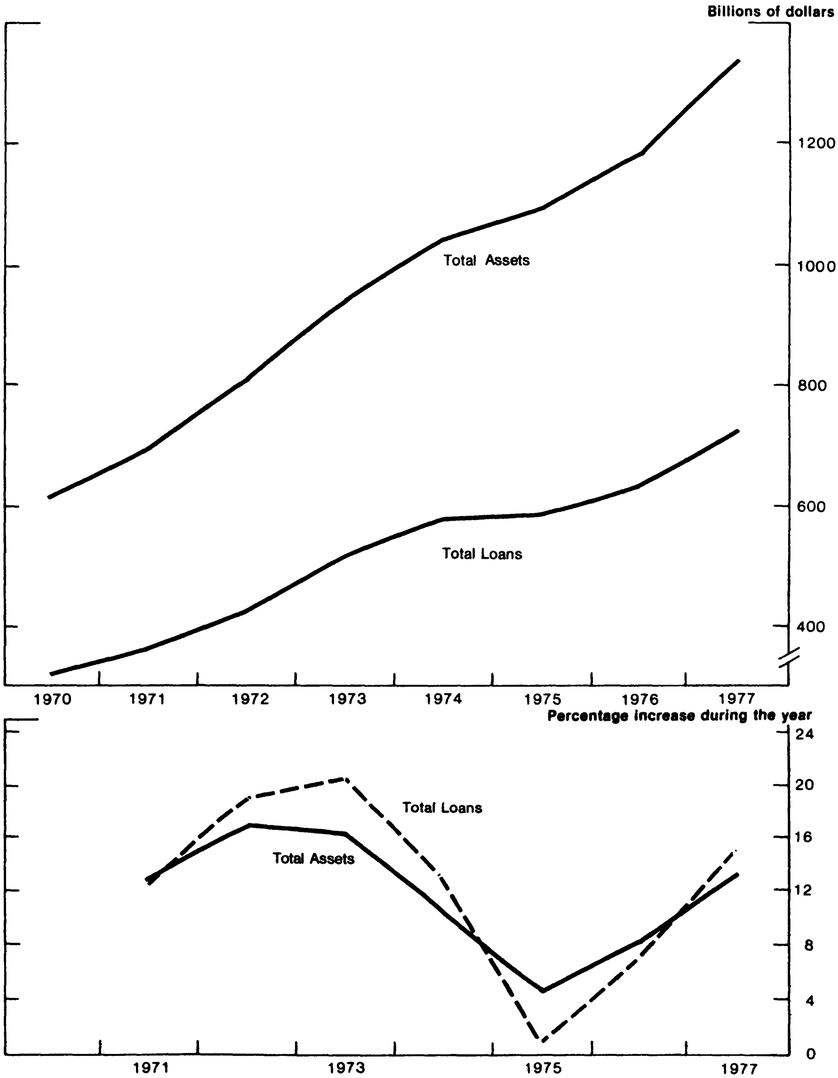


Chart 3

AMOUNT OF CLASSIFIED ASSETS OF MEMBER BANKS, 1973-77

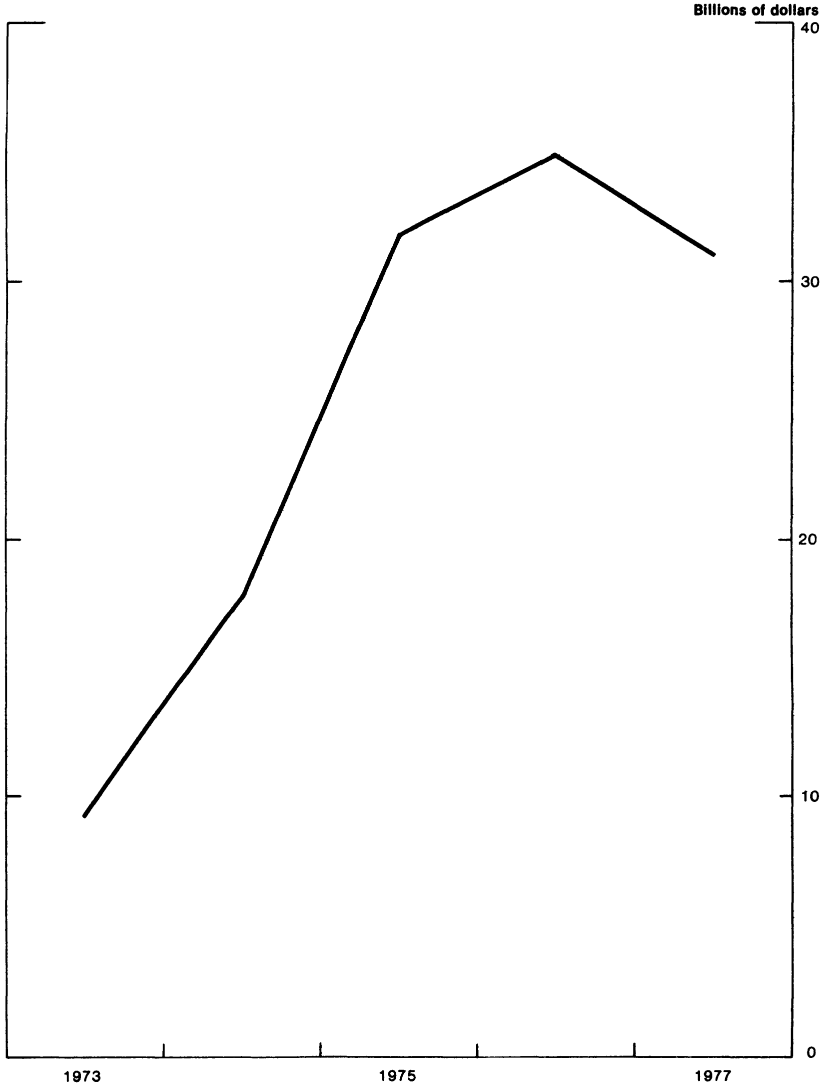


Chart 4

CLASSIFIED ASSETS OF MEMBER BANKS AS A PER CENT OF TOTAL ASSETS, 1973-77

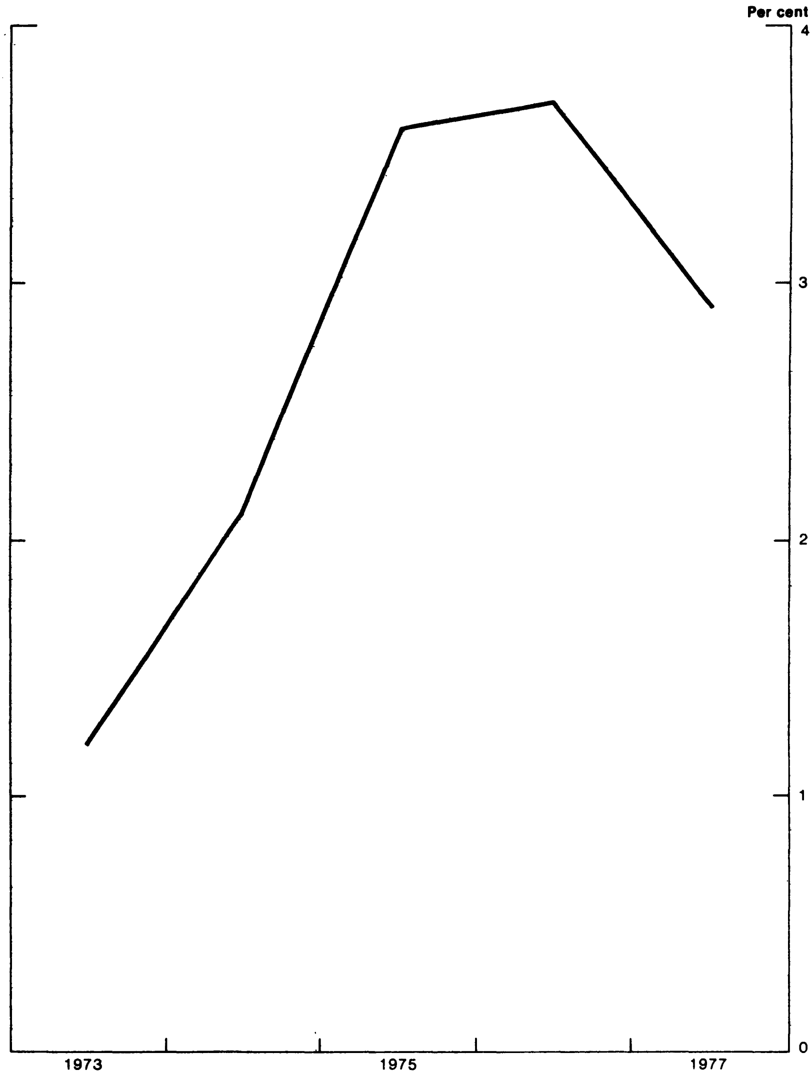


Chart 5

PROVISION FOR LOAN LOSSES AS A PER CENT OF TOTAL LOANS FOR ALL INSURED COMMERCIAL BANKS, 1970-77

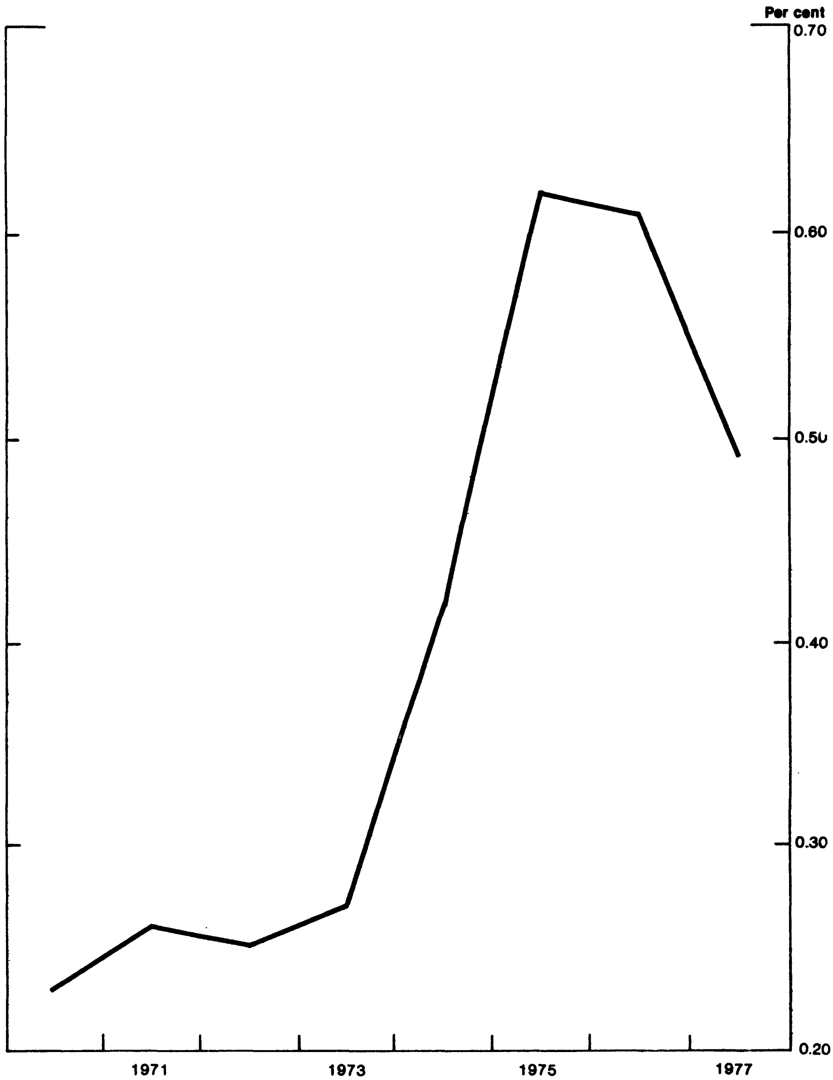


Chart 6

PROVISION FOR LOAN LOSSES AS A PER CENT OF PRE-TAX INCOME FOR ALL INSURED COMMERCIAL BANKS, 1970-77

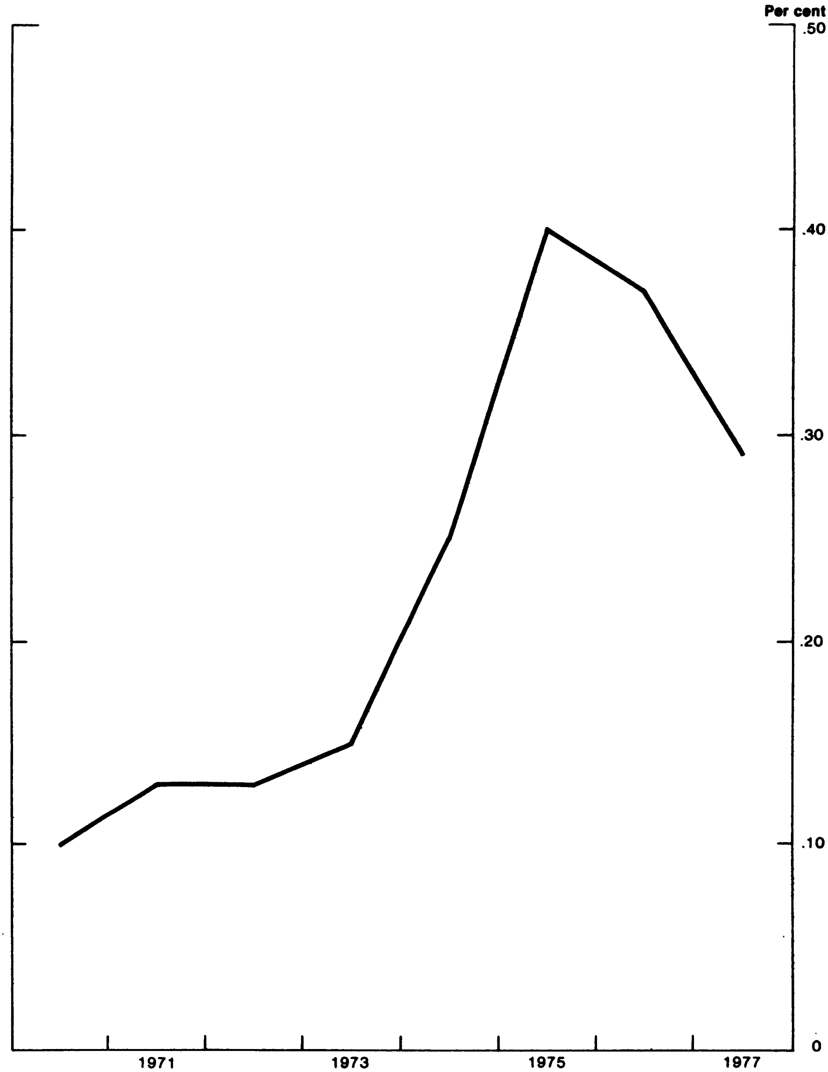


Chart 7

AMOUNT AND GROWTH OF EQUITY CAPITAL OF ALL INSURED COMMERCIAL BANKS, 1970-77

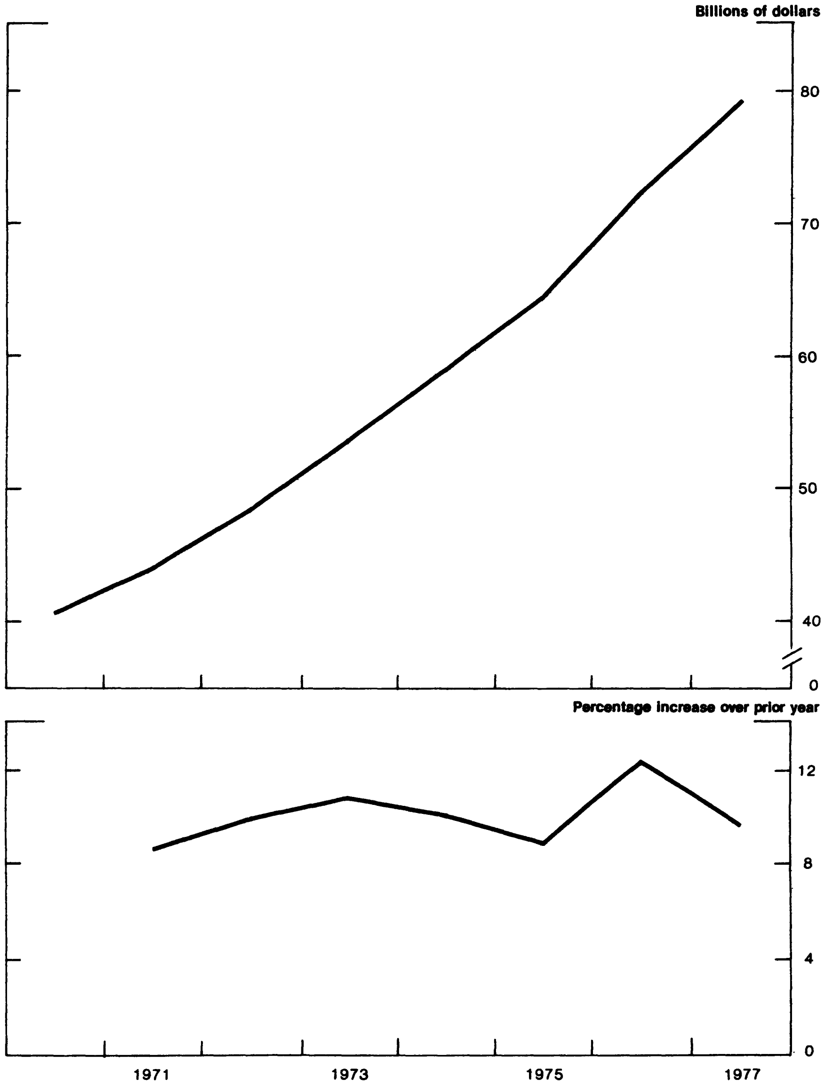


Chart 8

CAPITAL RATIOS FOR ALL INSURED COMMERCIAL BANKS, 1970-77

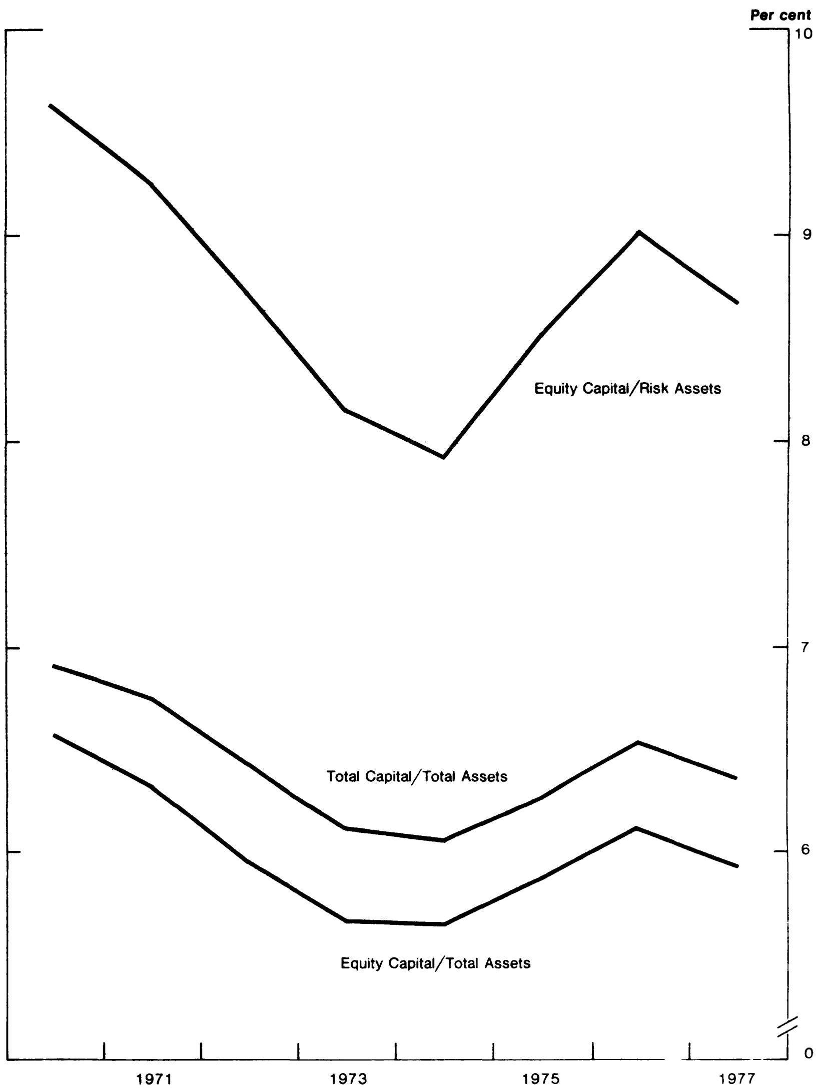


Chart 9

AMOUNT AND GROWTH OF NET INCOME OF ALL INSURED COMMERICAL BANKS, 1970-77

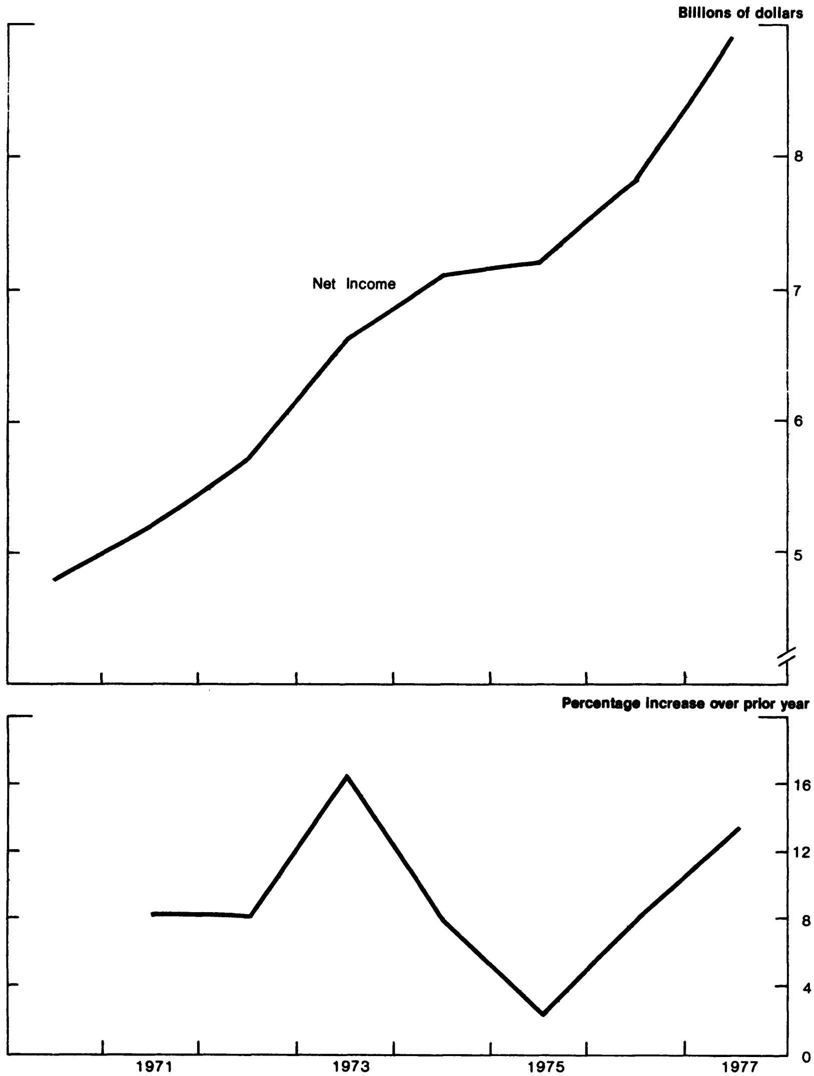


Chart 10

NET INCOME AS A PER CENT OF TOTAL ASSETS FOR ALL INSURED COMMERCIAL BANKS, 1970-77

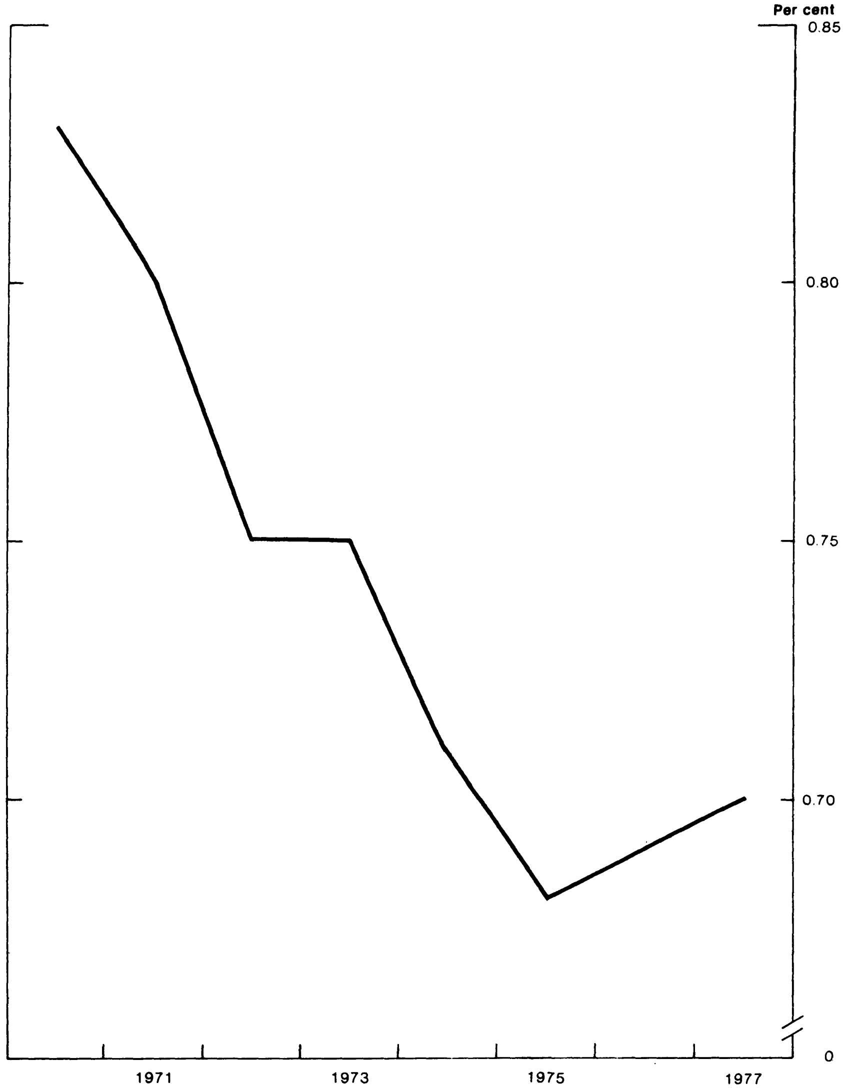


Chart 11

NET INCOME AS A PER CENT OF EQUITY CAPITAL FOR ALL INSURED COMMERCIAL BANKS, 1970-77

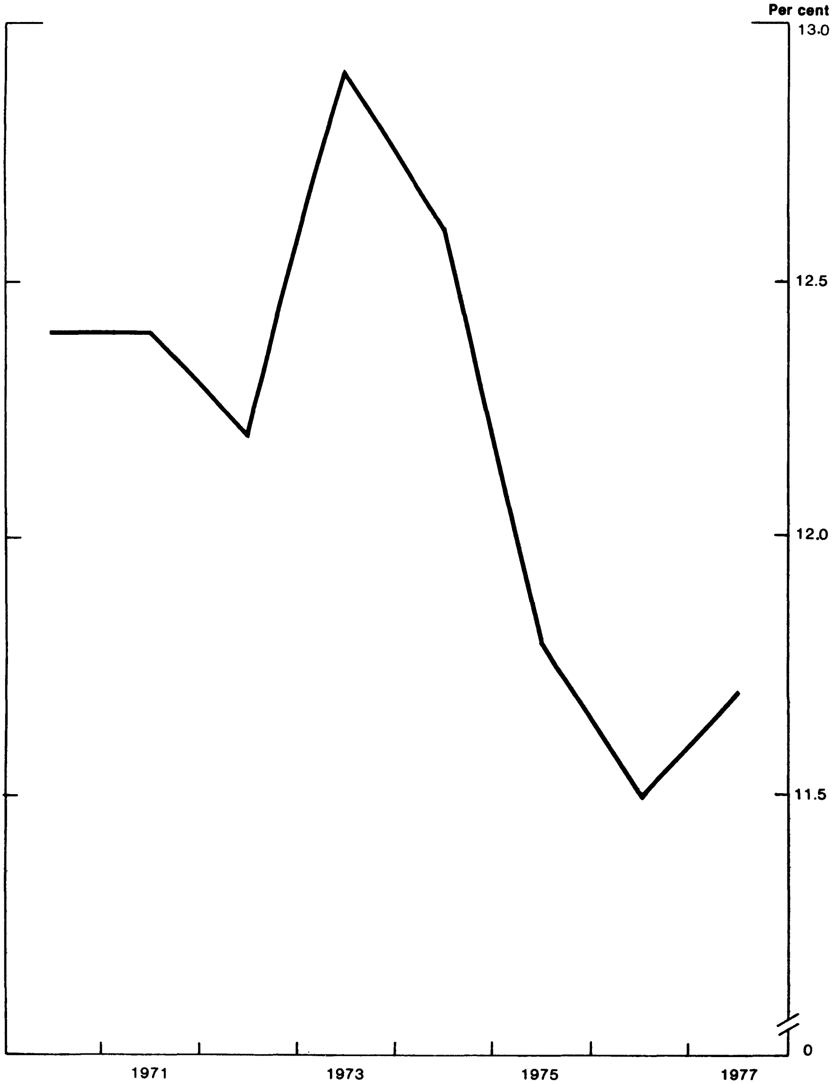
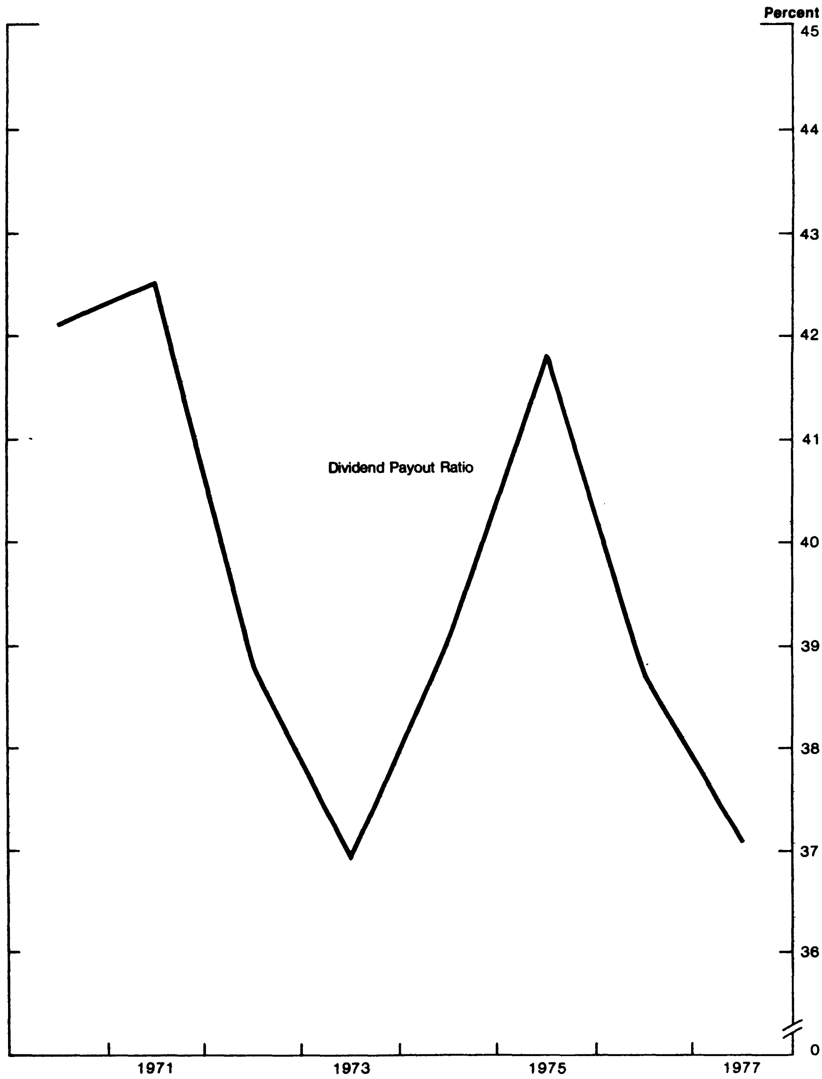


Chart 12

DIVIDEND PAYOUT RATIO FOR ALL INSURED COMMERCIAL BANKS, 1970-77



The CHAIRMAN. Thank you very much, Governor Coldwell.

Chairman Miller, on page 1 of your statement you say that the Board believes that the impact our banking system has on our economy is too important to go without this kind of periodic review, and I think that's a very wise and proper statement. I certainly support it.

I would like to hear you expand on that subject. There's been virtually no analysis done on the relationship between the performance of the economy as a whole and the health of the banking and financial system. Is there, in your view, a relationship and, if so, what is that relationship?

Mr. MILLER. It seems to me that if we're going to have a strong economy, it's essential that we have a banking and credit system and a payments mechanism that is efficient, sound, and devoid of surprises or upsets. We know from past experience that no matter how sound the economy may be in terms of production of goods and services, if there is ever an inadequacy in the banking system—failures or lack of public confidence—it can have dramatic consequences. Just the apprehension that goes with uncertainty about that fundamental activity can cause disruptions.

So I think it's essential that we have a sound banking system and that we probably have better knowledge now than we have ever had of how to relate the health of the banking system to the general economic welfare.

The CHAIRMAN. That's very helpful. I think that there's an understandable and proper emphasis on soundness, but I think there's also a failure on the part of many of us to put adequate emphasis on the other side—the aggressiveness, the availability of capital to business, particularly small business and to farming which Governor Coldwell briefly touched on.

When there is a lack of adequate capital it may be that banks are reluctant to make some loans which they would make if they were more effectively capitalized and the failure to make those loans, the failure to make that capital available, may be a problem in many areas in some industries and certainly for small business.

As I recall, a principal complaint that small business gives is they just can't get the capital they need. Much of that is long-term capital and, of course, that's not the province of the commercial banks, but to some extent its short-term capital too.

Do you see a situation now where our banking system does provide adequate capital, adequate short-term capital to industry?

Mr. MILLER. I am not personally satisfied with the amount of capital provided by the banking industry. I think there are many reasons for this situation. One is, of course, that banks have not been that successful in achieving the kinds of returns on their own investments that attract fresh capital. An industry that has a poor earnings record is not apt to be an attractive one for the infusion of new investment. When you see a major bank stock selling at six or seven times earnings and below its net asset value it's an indication that investors consider the rewards related to investing in banks not to be very attractive. That has left banks with the problem of building up their capital base through retained earnings; and retained earnings have been under pressures for a number of reasons.

I mentioned that competition, which is healthy to the banking system and to financial institutions generally, has put pressures on profit margins; and that, of course, has contributed to this general capital problem.

We also must remember that for those major banks and small banks—for all sized banks that are members of the Federal Reserve System—we do set reserve requirements that constitute a noninterest, nonearning set-aside of resources; these set-asides do impair the earnings of banks compared to competitors who do not have similar requirements. One of the reasons we have this membership problem in the Federal Reserve is that large amounts of money are held sterile and this does impair the ability of banks to compete.

On the other hand, from the point of view of soundness, such reserves do assure liquidity and banks' capacity to meet emergency situations.

The CHAIRMAN. When you look at the returns for return on investment, net income as a percentage of average equity for banks, it seems that the return is pretty substantial. The big banks over $5 billion have been trending down, you're right, since 1975. Return is down. But it's still around 12 percent. And the smaller banks of $500 million to $1 billion and under $100 million have both been moving up fairly well, so they are above 12 percent now.

I realize that with the inflation that we are suffering that a 12-percent return is not worth what a 12-percent return was a few years ago. Nevertheless, that does seem to be a reasonable rate of return given the relatively modest risk that banks endure compared to the rest of industry.

Mr. MILLER. Mr. Chairman, I might point out that a nominal after tax return of 12 percent in a manufacturing business, for example, will be affected by inflation; however, one could also expect a manufacturing business to be benefited by inflation's effects on real assets, properties, and plant capacities. Banks, on the other hand, have mostly monetary assets and very little in the way of real assets; in their case, there is a heightened relationship between inflation and the erosion of real earnings.

If we have 7-percent inflation this year and banks earn 12 percent, then there's a 5-percent real return for holding an equity position. This, of course, is quite modest compared to a situation where even a 2 or 3-percent return could be arranged on a fixed-income investment but where the principal is assured. So inflation is one of our concerns and one of the reasons why the market value is low. I do think it's a little bit different for banking than the manufacturing business. I think Governor Coldwell may have a comment.

Mr. COLDWELL. Senator, I just wanted to point out that our banks did have an increase of almost $5 billion in equity capital this past year, and that one of the reasons is that the holding companies have been downstreaming the capital from debt acquisitions that they have made. So we have had two sources of capital which have been active this past year: one, the improvement in earnings and retention; the second, the downstream of capital.

The CHAIRMAN. And yet we have, as this chart up here on the board indicates, the total capital as a percentage of assets—it appears that there's been relatively little improvement. The big banks, which is the black line at the bottom, has been going down and it's much below the smaller banks, but in no cases do you see the kind of improvement that you would normally expect in a period of recovery. Certainly the last 3 years have been periods of recovery generally and it looks as if the banking system is even more seriously undercapitalized.

Will you agree with my assertion which I made a couple times up here now—first Chairman Miller and then Governor Coldwell—would you agree that the banking system is undercapitalized?

Mr. MILLER. I would like to see the capital position stronger, yes.

Mr. COLDWELL. I would like to see it stronger, particularly at the upper end of the banking structure. I think most of the small banks are well capitalized.

The CHAIRMAN. And what is there, Chairman Miller, that you can do, or the regulators can do in general, to improve that capitalization picture?

Mr. MILLER. I think the supervisory process has to instill a greater sense of prudence in the banking system. There have been tendencies in past periods to be overaggressive in lending, and some of the resulting loan losses have eroded the capital base. The real estate situation a few years ago, I think, was a case of overaggressiveness by banks and it was very costly in terms of loan losses.

The same can be said about other types of loans. In fact—with inflation running the way it is and following a period when there's been intense competition for loans and a low rate of loan growth in the major money market center of New York—I think it's time for banks to be a little more cautious in making loans. Right now, I think there is a danger of becoming overextended; I'd like to see a little more conservatism right now.

The CHAIRMAN. Governor Coldwell, you indicated some elements that have been helpful to banks in securing a greater degree of capitalization. Is there anything you feel the Federal Reserve could do or the other regulatory bodies could do to encourage banks to go to the equity market? I realize, as you pointed out in your statement, you gentlemen, that this is a bad time, that the bank stocks are selling at six or seven times earnings which on the basis of our past experience is grossly unfair to the present stockholders in the stock. At the same time this is one way, one sure way of increasing equity. Is there any way that you could encourage banks to do this or is this something in your view that we simply have to accept, that banks aren't going to do under these circumstances in any substantial number?

Mr. COLDWELL. I think we have done some things and we continue to do them. Certainly, in the administration of the Bank Holding Company Act, when we get an application for acquisition of a bank we quite often condition our approval on increased capital injection into the bank. In fact, if I recall correctly, over the past few years our record on that already mounts up to more than $2 billion of additional capital.

The CHAIRMAN. That's right for individual banks that are undercapitalized.

Mr. COLDWELL. First, you have to work on this peg by peg, Senator. We can't just issue a mandate to the market to buy bank stocks. We can encourage banks to improve and retain earnings; of course, that's one way of building capital. We can also encourage the holding companies to downstream capital. But I don't think there's any positive way we can either provide the capital ourselves or mandate it.

The CHAIRMAN. Chairman Miller, on page 4 of your statement you say that the banking system today is in good condition. Comptroller Heimann on page 2 of his statement says the national banking system is in reasonable satisfactory and sound condition. Chairman LeMaistre says: "Notwithstanding the problem we have witnessed in the banking industry in recent years it's my opinion that the industry has remained sound."

Mr. MILLER. It sounds like we are all together.

The CHAIRMAN. Yes and no. It appears to be slightly different shades of assessment, maybe just different words to say the same thing among the regulators. The Fed's estimate is the most optimistic it seems to me. Is your optimism justified in light of the facts?

For example, classified assets for all member banks was 6.8 percent of total capital. According to the Fed's asset rating system this warrants an unsatisfactory rating. How do you explain that contradiction?

Mr. MILLER. From my viewpoint, in assessing the banking condition as good, the Board is making a judgment on a relative scale. One might look at that scale as being very poor, poor, good, very good and excellent. There's nobody I know on the Board of Governors who wouldn't like to see the condition of the banking system better—who wouldn't like to see it very good or excellent.

But at the moment, it would be unfair to say the condition is poor or less than reasonably satisfactory.

The CHAIRMAN. So you say it's about a C. What troubles me is the fact that we are in a period of recovery. We did have the best growth in number of jobs in our economy in the last year that we have ever had in history. We have had more people at work. We have had a drop in unemployment and yet at this stage in the business cycle where we have been going longer than we have in most periods of recovery the banking system seems to get about a C rating rather than an A or B rating.

On page 3 of your statement you say that foreign banks enter the United States sometimes in a more favorable operating basis than our own domestic banks and win a significant portion of the business loan market. I assume you're referring to the foreign bank's ability to branch across State lines an ability domestic banks don't have. Is that right?

Mr. MILLER. There are two reasons. One is that branches of foreign banks do not have comparable reserve requirements. When you're talking about multinational institutions you're usually talking about substantial institutions of like resources and like capacity; that's the nature of the international banking system. So you have foreign branch banks as large or larger than principal U.S. banks coming into this country and competing for loans based on spreads in market interest rates without having to put up any reserves. It just costs less money for these banks than it would if they had to raise $1.16 in order to lend a dollar, like U.S. banks.

The second reason is that foreign banks are on a more favorable basis if they are able to branch across State lines. We have a couple of banks from abroad now—I think you're aware of this—that have made tentative arrangements to acquire controlling interests in major New York banks. It would seem incongruous for a major, foreign owned bank in New York State to be able to have branches in the major money market centers of the country, when domestic banks don't have this ability. Certainly, that would give the foreign banks considerable advantage.

The CHAIRMAN. About a month ago I asked you for amendments to the House-passed foreign banking bill. Will those be forthcoming shortly?

Mr. MILLER. They certainly will, Senator.

The CHAIRMAN. Then do you feel this describes—what you have just said—the competitive advantages that foreign banks have over domestic banks for business loans?

Mr. MILLER. I think there are three areas of concern to the Federal Reserve. The first is that as more and more large foreign banks participate in the U.S. market—which we would favor; generally, we favor open competition—we have a supervisory question. If those banks elect to come into our market by incorporating as an American bank, then they fit in, and are comparable to any other U.S. bank, and I have no problem. If they decide to become State-chartered banks, then they will be treated like any other State-chartered bank. But, if they come in as a branch, to be supervised by State regulatory agencies and to operate in several States, there is a problem. I am concerned—the Federal Reserve would be concerned—about a State's capacity to adequately examine and supervise a bank which has operations in various places. So that's one concern.

The second concern is that soundness and fairness of competition would require reserve requirements comparable to what U.S. banks must maintain.

And the third area of concern is about the fairness of the branching system. If there is to be a change in branching authority in the United States, if we are going to amend the McFadden Act, we would be happy to discuss that. There may be some merits to it and some problems with it. I am concerned that we are allowing an amendment to that act through the back door, by letting foreign banks come in and establish a branching system, something U.S. banks cannot do. We would end up with a trilevel banking system: A system of State banks; a system of national and State member banks; and a third system of foreign banks with completely different powers and rights than the other two.

The CHAIRMAN. My time is up—it was up about 3 or 4 minutes ago, but before I yield to Senator Schmitt, if he would permit, I'd just like to follow up a little on that.

What concerns many of us is that the ability of foreign banks to branch across State lines could be used as the basis for permitting our domestic banks to do the same. As I understand it, foreign banks at the present time are a relatively small part of the banking industry and is this something that you think we should be concerned about?

Mr. MILLER. Yes, sir. In the past, foreign banks in operation in this country were relatively small, but they are growing very rapidly. We would not have been concerned 5 to 10 years ago, but with the tremendous current potential, for all kinds of reasons, for foreign assets and activities to be transferred here——

The CHAIRMAN. They are 10 percent of deposits now.

Mr. MILLER. I think slightly lower than that now, for both deposit and nondeposit liabilities. So I think it's time to look at this phenomenon.

My only point is that if we are to have interstate branching—and maybe we should—we ought to discuss it as a proposition to be decided on its own merits—not let it happen to us by accident, by letting foreigners do it first and then finding out we need to do something about domestic banks.

The CHAIRMAN. Senator Schmitt, I apologize——

Senator SCHMITT. No problem, Mr. Chairman. It's good to see you again this morning. We're spending far too much time together I'm afraid.

Chairman Miller and Governor Coldwell, it's good to see you this morning. I have a short opening statement, Mr. Chairman, which I would like to have inserted in the early part of the hearings.

The CHAIRMAN. Yes, without objection (see p. 2).

Senator SCHMITT. In that statement I'm talking primarily about a concern of this committee, which is the cost of regulation on the banking community, and what effect it is having on the basic health of that system and, of course, on the cost to the consumer of utilizing banking services.

I will be sending you, Chairman Miller, a copy of my bill I introduced last year, S. 2011, and asking for some comments on that. That particular bill is a general regulatory bill but it would attempt to put the Congress back in the business of approving or disapproving major regulations, major in the sense they would have significant economic, judicial, or paperwork impact on the public.

The basic problem of course, is, how do you measure the impact of a regulation before it has become effective? I don't have a full answer to that but we are exploring it. I would like the board's comments or system's comments on that legislation.

But more generally speaking this morning, what do you see in your present look at the banking community with respect to the effect of regulations on consumer costs as well as on their general ability now to do business?

Mr. MILLER. Senator Schmitt, let me comment on that first. I'm sure Governor Coldwell would also like to comment.

I think all of us realize that regulation; even well-meaning regulation—even regulation based upon perceived need—does have a cost, and that we need to be more objective about weighing costs against public benefit. I think many times we have regulated additional cost when we did not receive a commensurate public benefit. If the public benefit is substantial and important, we obviously need to do the regulating to make sure that the result is proper and equitable.

In the banking field, there's certainly no exception to the fact that each regulation in its own time and place may have been well-meaning. But the cumulative effect has been, I think, to add more complications, duplications and costs than are necessary.

The only way I see for us to approach this problem now is to go in for some "zero-based" regulating ourselves, awaiting what may happen in Congress. We are now structuring and allocating our resources to such a project; we hope over the next couple of years to reexamine every regulation issued by the Federal Reserve, and either to reissue the regulation—simplify it or standardize it with other areas—or to eliminate it. We hope, after 2 years, to have completely rewritten 100 percent of our regulations to try to relieve their burden—within our present statutory requirements to regulate as mandated by Congress.

So I am hopeful that that at least will be a step in the right direction. We recognize that we are required by the law to regulate many of these areas, and we will continue to meet our responsibilities in that regard.

Perhaps Governor Coldwell would like to add to this.

Senator SCHMITT. Could I follow up first, Governor, and then I will give you a chance.

Will the basic recodification, in a sense of the regulatory framework of the Board, include an examination of the present and future impact of those regulations on the economy, including general costs, the subset of costs, and paperwork that's sometimes required?

Mr. MILLER. Yes. We even have to think more and more about postage, because just the cost of circulating an item is terribly expensive. The answer is yes.

I must caution you that we are just forming our task force. We have selected a Governor who will be in charge of it.

Senator SCHMITT. Who is that?

Mr. MILLER. Governor Jackson. We hope not only to revise and improve our regulations and paperwork, but we also think it would be appropriate—we hope it would be appropriate and we would like to do this—to bring to the Congress, to this Committee and the counterpart House committee, suggestions for legislative changes that could eliminate some of these costs and requirements, yet still meet the public need. And, where we find that we have a statutory mandate for a regulation, but we don't believe there's an adequate justification for its cost, we hope that you will be receptive to our suggestions of actions you might take to help us streamline.

Senator SCHMITT. Mr. Chairman, I certainly would be receptive. I think I can speak for the committee.

Mr. MILLER. If we would just reorganize all the regulatory agencies under the Federal Reserve, as I tried to explain to Chairman Proxmire, we'd have no problem.

The CHAIRMAN. Well, we certainly want to reorganize them into a single bank regulator and we can show the——

Mr. MILLER. That orange box on the left looks awfully good to me.

Senator SCHMITT. Mr. Chairman, I didn't mean to give you that much of an opening.

The CHAIRMAN. You did, however, and I thank you for it.

Senator SCHMITT. I certainly will be very interested in that effort and I hope this committee, at the appropriate time, is able to review those recommendations, that you would have, try to move to eliminate the unnecessary ones and improve those that are necessary.

Mr. COLDWELL. I would like to comment just briefly, Senator.

The whole business of writing regulations seems to have a life of its own, part of it stemming out of legislation, part of it stemming out of problems we see in the banking industry, part of it coming out of sheer change in the banking industry and in the whole financial industry.

This committee and the Senate were very wise in passing what we know as Senate bill, S. 71, which gives us an opportunity to do some things for individual transgressors without writing new regulations. That's been a bugaboo of mine for years, that we write regulations to catch 5 or 10 offenders. Well, if we can get that kind of enforcement power and reduce the amount of specific regulations, maybe we can reduce the general burden. Also, we can do more in fields such as consumer credit regulation in terms of producing model forms that a small bank can use with assurance that it would be meeting the test of the law.

I really don't understand how a banker in a small town keeps track of all these regulations. I can't keep track of them on the writing side. I don't see how he keeps track on the reading side and the enforcement side. So he needs some help, and he doesn't have a lawyer sitting on his shoulder all the time. Plus, the costs of this are very large. So I'm on your side of this ball park. I'd like to see us cut out the idea of additional regulation. I hope the Congress will be judicious in its passage of laws that mandate new regulations.

Senator SCHMITT. What you have just said is music to the ears of the small town banker, I'll guarantee you that, and I will do everything I can to support you in those kinds of efforts. It's extremely important that we begin to actually make financial transactions easier rather than more difficult. One method is to look at a specific abuse and deal with that abuse in the instant case rather than trying to blanket an entire industry such as the banking industry with a new set of regulations. I will continue to fight in this committee for that kind of activity; EFT regulation being the most recent effort where we don't even know what the abuses are going to be but are still going to do something about them, and I think we have just gone a little bit too far. There is disagreement in the committee, I might mention, on that fact.

My second area of questioning, gentlemen, is to ask you to talk in general and specific terms, about the effect of the present general tax law on the availability of capital, on these curves that we are seeing here, and on the banking system.

Our income taxes is at a point now where there is a serious factor in reducing the amount of savings that people are bringing into the banking system.

Mr. COLDWELL. Well, I think that's always going to be a problem to us in an inflationary time with a progressive income tax. People's incomes get higher. Their real incomes don't move up that much, but their dollar incomes are subject to higher rates of taxation.

I have already mentioned to the chairman that one of our ways of achieving capital is by retained earnings. If we can't retain earnings in the banking system for building capital we must go outside, but the market is just not conducive to that and the banking industry's earnings are not high enough to attract it.

So I think the tax laws are having a detrimental effect on capital availability. But the Government must receive its money somehow, too, or curtail its operations.

Mr. MILLER. Senator, I was going to point out one thing that happens to be a high priority now in my mind, and that's the question of fairness in competition among all financial institutions in providing credit and transaction services. This point goes back to the question of membership in the Federal Reserve.

There's one form of tax on banking that other financial institutions don't have and that is the requirement for members to maintain non-interest-bearing reserves. As long as other financial institutions don't have that requirement, it is a tax and that tax reduces equity and draws a very substantial amount of money out of the banking industry. It's that tax that is causing us to lose members to the non-taxed state system. So I hope you will bear in mind it's not just direct taxes, but this kind of indirect tax that concerns us too.

Senator SCHMITT. Well, I agree with you on the specific point that you make about reserves. I think you're entirely correct, that we should make it more attractive to be a member of the Federal Reserve System. It has many side effects, as you well know, not the least of which is understanding what is happening out there in the financial community.

Do you, however, feel that a small but permanent tax cut at this time, again keeping equity in mind if we can, but generally a small but permanent and business income tax cut would over the next 2 or 3 years actually help the formation of capital in the banking system?

Mr. COLDWELL. Yes, I would say it would be a help to improving the amounts of savings. Hopefully, the banking industry would be attractive enough to get its share of those savings and, therefore, to improve its availability of funds. Savings ought to translate into larger capital spending. That's one of the areas of weakness that we have seen in our economy over the recovery period; capital spending just has not grown enough. Increased savings would be a help along that line.

I would be very cautious about when I implemented that tax cut, however.

Senator SCHMITT. Well, I would be very cautious also, but we are talking now about a one-shot tax cut. That's the general trend of conversation around here. What would be the effect of a one-shot cut? Would it have any noticeable effect on the problem we're discussing?

Mr. COLDWELL. Well, a one-shot tax cut—you mean cut it for 1979 and then reimpose it for 1980?

Senator SCHMITT. Yes.

Mr. COLDWELL. I assume you get some improvement in the availability of funds because you wouldn't pay as much tax. Such a one-shot arrangement, however, wouldn't allow people to plan over long periods of time, which is what you have to do in a capital spending program.

Senator SCHMITT. But do you think—let's say just for the sake of numbers, if we had a one-shot, $30 billion tax cut versus a permanent cut which, over 3 years, would amount to $30 billion, which, would have the better effect on the banking community and the availability of capital? Is it possible to make a general determination on that, Chairman Miller?

Mr. MILLER. Let me comment on that. I would think that's very dangerous; a very large, one-time cut would create interruptions in the economy. It would have effects on financial markets and, given the very large Federal deficit that would go with it, it would have many repercussions.

What we need in this country is economic policies which move in an ordered pace toward where we want to be; I think moving up and down is a poor policy. We ought to head for an economy that does require less spending of resources by the Federal Government. We ought to move gradually; that means we not only have to plan tax cuts in due course, when we can afford them as weighed against our Federal deficit, but that we also need to make conscious decisions to reduce the percent of GNP made up by Federal spending.

So I would much rather see a multiyear program headed toward lower Government spending and a shift of resources to the private sector, through parallel action to transfer incomes and spending decisions to businesses and individuals. That's how you will strengthen the banking system and that's how you will strengthen the economy.

Senator SCHMITT. I couldn't agree with you more, Chairman Miller. I think you're right. It takes discipline on several fronts, including a long-term view of reducing taxes, reducing the Federal deficit itself, and reducing the rate of growth of Federal expenditures hopefully until it drops below the rate of growth of the GNP on a continuous basis for the foreseeable future. And at the same time, as we have talked about before, looking at a steady decrease in the rate of growth of the money supply which those other actions would now make possible and would have considerable effect on inflation.

Mr. Chairman, I'm sorry to go over.

The CHAIRMAN. That's fine. I went over, too.

Senator SCHMITT. We're even.

The CHAIRMAN. We sure are. I might say, Chairman Miller, two fans of yours in this morning's newspaper, Evans and Novak, remarked on your position on the Steiger bill to reduce capital gains tax, indicating in their judgment—which isn't always the best judgment but sometimes it's good and sometimes it's not—in their judgment, your present position on the Steiger bill is you oppose it, oppose reducing the capital gains tax, would have an adverse effect on all industry, including banks and being able to raise money.

I just can't resist making a comment in the area that Senator Schmitt opened up so well. A single bank commission would reduce personnel, provide for uniformity in regulation, consolidate the regional offices, provide less burdensome regulations—all kinds of very good advantages.

Let me ask you this question. The Federal Reserve appears to have recently upped the Federal funds rate to 7½ percent. When will this process end? Are we heading for another credit crunch as we had in 1974 when short-term rates soared over 10 percent?

Mr. Miller. Senator Proxmire, I certainly hope not. The Federal Reserve in recent times has been deeply concerned about the inflationary pressures which have accelerated and which threaten our long-term economic well-being. As you know, the problem is an especially difficult one for the Federal Reserve because should the Federal Reserve be the only part of the economic policymaking apparatus that is trying to counter inflation—and if the Federal Reserve is left to do so by its only means, which is tightening the money supply—then we do run the risk of slowing down the business expansion and even bringing on a recession.

On the other hand, if we validate inflation, certainly we're going to head for even more serious problems; the economic dislocations would come later, but be more severe. So our hope is that a combination of some restraint on our part, and the discipline that can and will be introduced on the fiscal side, will allow us to get through this very difficult period of time—with a somewhat slower rate of real growth in GNP than had been predicted last fall, but still one above the long-term trend line. This would give us a chance for economic growth, improvement in employment, and reduction of unemployment, while still holding in bound inflationary forces.

This is a very difficult task. We will have to be extremely wise to move through this particularly difficult period without overreacting one way or the other. We will do our best to act prudently and wisely, and not try to create abrupt changes that could dislocate the economy.

The Chairman. I notice that the administration has responded to your appeal to postpone the tax cut and that seems to have confirmed part of what you were asking, an important part of it. The White House has announced what they call an all-out assault on the Federal budget for fiscal year 1980 with a view toward reducing the deficit below $40 billion. Now if the administration is successful, what would be the impact on the Federal Reserve Board's monetary policy, if they are able to reduce the deficit below $40 billion?

Mr. Miller. If we can go on a downward pattern—reducing the deficit to $50 billion, instead of the $60 billion originally estimated for fiscal year 1979; to $40 billion or below for fiscal year 1980; and to $20 billion or below in fiscal year 1981; and, finally, achieving a balanced budget in fiscal year 1982—I think that trend, along with other actions to decelerate inflation, would greatly ease the burden on the Federal Reserve. The more discipline there is in fiscal management, the less pressure there is on the Federal Reserve to maintain monetary restraint. So I look with great favor on a course of action in which the budget is brought toward balance and in which we have less need for Federal financing of the deficit and therefore less pressure on the Federal Reserve.

The Chairman. Is it possible that the growth of the economy might not be retarded very much inasmuch as the lesser fiscal stimulus might be compensated by an easier monetary policy so that with the diminution in the size of the deficit and therefore a lesser stimulus from the fiscal sector you can make up for it? Would you feel that's reasonable or is that asking too much?

Mr. MILLER. I think it's reasonable. None of us can predict external factors, such as what will happen because of balance of payments problems.

The CHAIRMAN. What I'm talking about is interest rates coming down.

Mr. MILLER. We do have to worry about international issues; the answer is more complicated than you imply and we don't want to simplify it. But I think what you say is true to the degree that if we have a fiscal program that's in equilibrium and that does not entail large deficits and that fosters full employment in good times, that that does open up the prospect for less monetary restraint. And if we were fortunate and everything worked well—and if inflation does decrease—we could see lower interest rates.

However, interest rates, in my opinion, are more influenced by inflation that they are by these short-term actions. If inflation continues at 7 percent, Senator, I'm just afraid there's not much that any of us will be able to do to bring down rates on long-term capital.

The CHAIRMAN. Well, presumably, the kind of fiscal policy we're discussing would have some effect on inflation.

Mr. MILLER. We would hope so. And, of course, as you know, it's been my view that if we work toward a goal gradually we will be better off than if we move abruptly—that's true in steering the economy as it is for most other endeavors. If we could work toward moving the inflation rate down at one-half or three-quarters of 1 percent a year—and keep the rate going down steadily—then what you're suggesting would come about. We would see opportunity for lower interest rates because inflation would abate. And, if we balanced the budget, the pressures of the large Federal deficit would abate, and interest rates would inevitably come down.

Mr. COLDWELL. I hope, Senator, that I'm not revealing a difference, because I haven't talked this over with the chairman, but obviously you have a longrun/shortrun problem involved here. Improvement in fiscal policy action will, over a longer period of time, reduce the pressure on the markets. But the Federal Reserve also has a shortrun problem, as well as a longrun problem. I hope the chairman is saying that over the long haul we can reduce pressures as the fiscal stimulus is reduced also.

The CHAIRMAN. But in view of the enormous importance of the psychological element, won't the diminution in the deficit be the determination we make and reducing the deficit also will have an effect in slowing inflation?

Mr. MILLER. It will have a very powerful effect for several reasons. One, it will encourage business investment, which is important.

The CHAIRMAN. And it would moderate wage demands, too.

Mr. MILLER. It would moderate wage demands and improve opportunities for investment, both of which would be positive factors.

I think there's a big psychological benefit to be had from the American public's understanding that there is a commitment to a course of action that reduces the Federal deficit and brings it toward balance. A course of action that does that on a timetable that's realistic and achievable will put great confidence in the system and will contribute greatly to improved economic conditions.

The CHAIRMAN. Governor Coldwell, one of the areas of concern you expressed for the banking system is the financial condition of New York City and, of course, as you know, this committee will be dealing with that problem in the next month or so and the Senate and the Congress will have to deal with it.

You point out that the amount of New York City paper held by banks has declined and the default need not result in a complete loss. I'm not quite sure how precise you want to be on this. I got the impression that you were saying that a New York City default would not have a significantly adverse effect on the banking system as a whole. Is that right?

Mr. COLDWELL. That's true—or even on the banks themselves. A default presumably would be cured because the Government agency or entity continues in existence and it will have to cure its default in order to have access to the credit markets. So I don't think you're looking at a permanent loss of capital. You will have some loss of revenue and interest, of course, if you have a default, but over the long haul a government—city, State or whatever it is—will continue to exist and must get itself back in shape in the market to attract funds.

The CHAIRMAN. Chairman Miller, do you agree with that?

Mr. MILLER. I think there could be loss in interest, in the earnings of the securities for a while, and that there could be deferral in paying at maturity. There could be some effect on liquidity of banks; in that regard, the Federal Reserve is prepared through its discount system to take care of the liquidity problem with banks.

So I see that we could have harm to the banking system from default, because we'd have lost earnings and deferral of payments. But we certainly would not have any sense of crisis. We would be able, I think, to manage the liquidity problem quite satisfactorily.

The CHAIRMAN. Senator Schmitt.

Senator SCHMITT. Thank you, Mr. Chairman.

I would like to move back to the issue of taxes a little bit, gentlemen, and specifically, Chairman Miller, will you just summarize why you seem to now oppose a change in the capital gains tax structure? It was my understanding originally that you were somewhat favorably inclined towards that.

Mr. MILLER. All I know about my position is what I read in the papers.

Senator SCHMITT. Why don't you forget about the papers because I haven't read them this morning. Tell us how you feel about the reduction.

Mr. MILLER. There are several things that have been reported. Let me give you my views accurately.

My view is that this calendar year we are making the plans for next fiscal year, and, in the face of inflation, it is very important to get in some fiscal discipline. That takes place only one of two ways: spend less or tax more. On the taxing side, reduction is proposed; the simplest and surest way to counter or to reduce the large, impending Federal deficit is to defer and cut the tax reduction. That has been agreed to by the President and the leadership in various congressional committees, and hopefully will become the program.

Now we must look downstream, and it seems to me that downstream we need to be looking toward an economy that in *x* number of years moves the percentage of GNP represented by the Federal Government down from 22 to 20 or lower. This means that, say, 5 years from now Federal spending may be $50 to $100 billion less than it might have been—maybe we'll see an even greater reduction.

We also need to change the component of our GNP that is in fixed business investment from about 9 percent to 12 or 14 percent. We also need to make substantial efforts to increase our exports as a percent of GNP in real terms from 7 percent to perhaps 10 percent.

If we start on such a program, along the way we will want those tax programs that would create incentives for the business investment that creates jobs, that modernizes, and that replenishes the capital base we have been depleting.

Japan has been spending about 15 percent of GNP on fixed business investment; Germany, 21 percent. We have been spending about 9 percent. We are falling too far behind.

We should, therefore, be looking beyond this year to next year to plans for investment incentives that work in the most efficient way. As we reduce Government spending as a percent of GNP, we should also be looking at plans for shifting resources to individuals—by cutting their taxes, when we can do that without damage to our objective of balancing the budget. We should also look at impediments to capital formation—at the combination of capital gains taxes and the double taxation of dividends. And, as we make progress on a comprehensive plan that we understand and a strategy on which we agree, then I think it would be appropriate to undertake reforms that encourage and give incentive and motivation for the entrepreneurship that we need to get this country revitalized. But I think we cannot talk out of both sides of our mouth. We cannot say, "We must discipline ourselves this year," and then start another system that contradicts that. We must have two disciplines: the discipline to balance our budget and to manage our monetary affairs prudently, and the discipline to take our tax cuts when we can afford them—when they promote our strategy and not just because it's convenient or attractive or opportunistic.

Senator SCHMITT. Mr. Chairman, I agree with, as we used to say in the geological profession, the topology of the picture you painted, and the question is what are all the lines concerning that particular map we put on the future and how do we then stretch it and move it around, keeping the general relationship of things the same? You and I, I think, agree on the general relationship, but I'm really concerned that you do not advocate, say, establishing one of these trend lines which represents a gradual reduction in taxes such as a gradual reduction in the capital gains tax, and maybe even as important now, a gradual reduction in personal income taxes.

I'm not talking about a big cut this year, but let's establish a trend line of the same kind within the context of the shape of things that you painted. Don't you think that we can do that? You agree on a tax cut this year, even if it's a smaller one. Why don't we make it even smaller but create a clear picture that that cut is going to continue into the future?

Mr. MILLER. Senator Schmitt, I can't disagree with you in principle. My concern has been with the aggregate level of the tax cut; I have not tried to involve myself in a debate of how the $19.4 billion tax cut, now contemplated to take effect January 1, might be structured. If there's any room to start the trend in the direction you suggest, I would favor that approach. I don't want to misstate my position. I favor a relief of the tax burden for individuals. After all, tax reform for individuals in this country means two things: it means, first, simplification of the complexities of our tax structure, which are mind-boggling; and second, lower rates, and a shift of spending from Government to the private sector. We can't do both; we can't keep up Government spending and also keep putting more money into the private sector. We cut Government spending relative to GNP and give money back to people. At the same time, I agree with you: We've got to find a way to make it worthwhile once more for those American geniuses and entreprenuers to found great enterprises and build jobs and new technologies.

Right now there's more net after tax income for any person working for a large corporation or working for a salary than there is for any person taking the risk of building a business. When you build a business, the tax is greater than when you receive a salary. So we've got to reinstitute some reward and incentive to build the enterprises that will create jobs, create competitiveness, advance our technology, and give our economy that thrust.

I agree with what you're saying. I would be happy if somebody asked me and others at the Federal Reserve to look at how we might draw your line to get from here to there. I was only trying to outline to you what I think the end game ought to be, more or less. Now we ought to seek general agreement as to the desired end result and then see if we can agree on how to get there.

Senator SCHMITT. Well, I think we also, you and I at least, would agree to the path. The question is, what is the slope of the curves.

Mr. MILLER. Yes.

Senator SCHMITT. This is relative to the tax and deficit reduction and so forth. We have built in a more difficult situation for the next few years because of what we did last year on social security tax increases. That not only swamps to some degree what we are talking about in terms of a tax cut this year, but it's going to be a continuing problem. Maybe it will be another argument about why we need to establish a gradual reduction in other taxes so that we can progressively offset that social security tax increase if we're not going to find a better way to provide for retirement security in the future.

So I'm encouraged by what you say, that a trend line that indicates a permanent and gradual reduction in taxes would fit within the topology or the shape of the picture that you're trying to paint for us. I agree with that completely and I hope that this year we can agree to do that. Rather than throwing a one-shot tax cut which may be a little bit too large into the economy, let's take a series of smaller steps over a long period of time. It not only makes more rational economic sense but it's the kind of thing that encourages investors because they know they are going to have, every year, a set amount that can go back into investment of a certain kind. The $50 rebate that we talked about last year basically had one disadvantage—that it was one shot. It did not provide the incentives for long-term planning with respect to what are you going to do with more of your income as every year comes by. So I'm encouraged by the statements that you have made so far.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, gentlemen, very, very much. We very much appreciate your testimony and you have been most responsive.

Mr. MILLER. Thank you, Mr. Chairman and Senator Schmitt.

The CHAIRMAN. Our next witnesses are Hon. John Heimann, Comptroller of the Currency; and Hon. George LeMaistre, Chairman of the Federal Deposit Insurance Corporation.

Mr. Heimann, your statement will be printed in full in the record and it's an excellent statement. We'd appreciate it if you could abbreviate it for us and, Mr. LeMaistre, similarly, we'd appreciate it if you could abbreviate your statement.

Mr. Heimann, go right ahead.

STATEMENT OF JOHN G. HEIMANN, COMPTROLLER OF THE CURRENCY

Mr. HEIMANN. Thank you, Mr. Chairman.

I appreciate the opportunity to appear before this committee. As we've noted in our statement, we feel strongly that these hearings are of great value to all of us in assessing the condition of the banking industry.

I will abbreviate the statement, if I may, and just hit some highlights and not repeat some of the things that have already been mentioned by Chairman Miller and Governor Coldwell.

[Complete statement follows:]

NEWS RELEASE

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Administrator of National Banks

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STATEMENT OF JOHN G. HEIMANN
COMPTROLLER OF THE CURRENCY
BEFORE THE COMMITTEE ON BANKING,
HOUSING AND URBAN AFFAIRS
U. S. SENATE
May 25, 1978

I appreciate this opportunity to discuss the condition of the national banking system. This is the second annual meeting on this subject and I commend the Committee for initiating these sessions. We in the Comptroller's Office consider this an appropriate opportunity to analyze on a macro basis the banking system's condition and to share these findings with this Committee for the purposes of oversight and legislation.

In connection with these hearings, we have already supplied the Committee with statistical and other data. Because of the volume of data and the breadth of the subject, I will concentrate today on an overview of the condition of the national banking system, the status of national banks requiring special supervisory attention and, finally, our methods of, and plans for improving, bank supervision.

As was the case last year, the national banking system is in a reasonably satisfactory and sound condition. The condition and health of the nation's banks reflect in large part the state of the economy. Economic growth usually brings with it profitability, as well as the expansion of the resource base, of the nation's banks. As the economy improved in 1977, so the nation's banks continued their rebound from the severe recession of 1974 and 1975 by all the traditional standards of measurement.

Bank failures during 1977 were at their lowest level in recent years. Only one national bank failed in 1977 and one has failed thus far in 1978. Failures at these manageable levels are a natural cost of maintaining a highly innovative and competitive banking system with over 14,000 participants. Each of the 1977 and 1978 bank failures was managed by the federal banking agencies without loss to the banks' depositors and with only minimal disruption to the communities they served.

The asset quality of national bank portfolios also improved during 1977. Net loan losses declined in 1977 to .42% of average loans, compared to a level of .60% in 1975 and 1976. While still high by historical standards, loan losses are on the decline. We fully expect future earnings and loss reserves, which increased 9% in 1977, to be adequate generally to cover the loss potential contained in the poor quality assets remaining in the portfolios.

Classified assets remain heavy in the largest national banks (assets over $5 billion) at 81% of gross capital funds, although they have declined from 107% last year. Seventy-seven percent of these assets, however, are in the substandard category and contain only minimal loss exposure. Most of these classified assets represent the overhang of loans, chiefly in the real estate sector, made prior to the recession. That few are of recent origin suggests that bankers in the last three years have taken a more cautious lending approach.

1977 was also a year of growth for national banks. Assets increased 13.1% to $796.6 billion, which is equal to 59.5% of the total assets of the U.S. banking system. Illustrative of the tremendous growth of the banking system in the last forty years is the fact that two national banks individually now hold assets which exceed the $68 billion held by all commercial banks in 1937. In recent years much of this growth has been centered in the expansion of multinational activities by the nation's largest banks. From a nominal base in 1967, national banks have expanded their holdings of international assets to $160 billion as of December 31, 1977.

Loans increased in 1977 at a 15.1% rate due to the surge in credit demand which was created by favorable economic conditions. This compares to a 5.3% growth rate in 1976.

While earnings and capital in 1977 increased in national banks at rates of 11.9% and 9%, respectively, both factors significantly lagged the expansion of assets. This resulted in the return of a long-term trend of declining capital ratios which has concerned the Congress and regulators for several years.

The subject of capital adequacy has traditionally been the source of differences of opinion among bankers, bank supervisors, and the investment community. There have been substantial definitional problems. In addition, banks have different financial, economic, management and shareholder characteristics. All of these factors influence the desirable level of capital for the particular institution. They are nearly impossible for the bank supervisor to quantify and standardize. There is no magic formula for determining bank capital adequacy.

Despite the analytical and conceptual complexities, one thing is abundantly clear: the ability of individual banks to continue serving efficiently existing product markets and individuals and to achieve other new long-range objectives depends, in large measure, on the strength of their capital base. The capital growth of the nation's banking system has simply not kept pace with the expansion of the resource base, particularly risk assets. This development has probably occurred more as a function of the dramatic growth in bank resources, influenced

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by the inflationary environment of the 1970's, rather than as a result of any conscious effort on the part of bankers to accept a lower level of capital. As banking institutions have experienced this impressive asset growth, diversification has broadened the base of operations. This, in turn, has to some degree lessened the need for the maintenance of historical capital standards in certain banks.

Decreasing capital ratios have been most apparent for the national banks with assets exceeding $5 billion. The statistics provided to the Committee show that equity capital has fallen as a percentage of total assets to 4.36%, compared to 4.59% last year and 4.79% in 1972. Present trends are in the direction of still lower capital ratios although they have not yet reached the historical low of 3.86% set in 1974. The statistics are somewhat distorted, however, inasmuch as they include significant equity contributions from parent holding companies, many of which raised the funds through debt issues, rather than through equity offerings.

While regulators have some concern about current capital levels at the large institutions, our principal concern is with the trend of bank capital ratios. We believe there may be a substantial shortfall in bank capital by the early 1980's if asset growth patterns are maintained at historic levels and if internally generated capital through retained earnings is not both increased and supplemented by external sources.

Earnings, the major source of bank capital, have been a particular problem for the large U.S. banks. The causes of this problem are varied and involve structural and economic factors largely beyond the bank's control. One of the most important factors is the rate of inflation in the 1970's, which has been a major contributor to the phenomenal growth of bank assets and bank expenses. During this inflationary period, revenues have not risen proportionately. As a result, although nominal earnings on equity have remained relatively steady over the last ten years, the real return on equity, adjusted for inflation, has declined. In this environment banks have been unable to attract large amounts of external capital simply because bank shareholders, present and prospective, are not getting, and do not perceive they have the potential for getting, an adequate rate of return on investment.

Bank stocks are not only selling at low earnings multiples, but many are selling below book value as well. In these circumstances, shareholders face substantial dilution of their interest if equity is to be sold. As a result, the major banking companies have been relying more and more on subordinated debt issues, a less desirable form of capital financing than equity. Debt issues not only avoid dilution for shareholders but have the additional advantage that interest can be deducted for tax purposes. The increases in debt capital issued by bank holding companies in the last few years suggest that many of these companies may be approaching their limits in their access to the debt markets.

If some fundamental adjustments are not made and asset growth continues to exceed capital growth, the ultimate trade-off may well involve severe restraints on the ability of banks to serve the nation's credit needs.

Steps should be taken to remove artificial barriers to more efficient allocation of financial resources. Laws enacted over many years have restrained the ability of financial institutions to price their services properly and to pay market rates for the financial resources they seek. Still other laws have established market allocations which interfere with efficient application of scarce capital.

Congress and the regulatory agencies are addressing some of the problems such as the prohibition of interest payments on demand deposits, the interest rate differential between commercial banks and thrifts, and the Federal Reserve membership costs. The Comptroller's Office has also asked the Congress to consider changing the maximum permissible cumulative rate, now 6%, which national banks can pay on preferred stock.

Our examining personnel insist that national banks place additional emphasis on capital planning. The existence, maturity and sophistication of the internal planning process is carefully evaluated. As a corollary to this approach, we are developing NBSS generated growth projections for individual banks based on historic financial trends and other relevant factors, all of which are derived from the examination process and the present industry reporting system.

As a tool for examining personnel and bank management, these profiles are expected to provide a basis for meaningful discussion about an individual bank's capital adequacy, present and prospective. If a current or future shortfall in capital is suggested as a result of analysis, examiners will be prepared to discuss specific measures to alleviate the deficiency. Finally, we are reassessing the role subordinated debt should play in bank capital analysis and planning.

The data in our National Bank Surveillance System (NBSS) provide us with further information on the condition of the national banking system. While most of the twenty NBSS peer groups reflect the recent trends of the total system, two types of national banks, the largest multinational banks and the small rural banks, separately reflect the recent economic conditions applicable to them.

The 15 national banks in NBSS peer group one are multinational, money center banks. They hold 44% of the assets of the national banking system and 26% of the assets of all commercial banks. These institutions, for many practical reasons, serve as reserve banks for the thousands of smaller state and national banks in this country. They also serve the multinational interests of Americans in all countries. These banks operate in the interdependent world financial system and their performance is affected by global money market conditions. The high levels of liquidity and the corresponding narrowing of spreads in those markets during 1977 are reflected in the slight declines experienced by these banks in their return on average assets and their net interest earnings as a percentage of average assets.

However, the 15 banks in the first NBSS peer group remain strong and viable. During 1977, their assets increased 15.6% and deposits increased 14.5%. During 1977, net loan losses decreased 21.6% while reserves for future loan losses increased by 9.4% from $1,536 million to $1,680 million. Overall, these banks retained $1 billion in earnings in 1977. Total capital increased 9.3% from $14,914 million to $16,302 million. The multinational influences on these figures are clear. Loans and deposits in foreign offices increased 18.7% and 15.6%, respectively, during 1977. Overseas loan losses continue to be minimal. 1977 earnings from international operations increased 6.6% and represented 38.1% of the total earnings for these banks.

NBSS data on the small rural banks reflect the economic impact of agricultural problems in 1977. By the end of 1977 the percentage of past due loans to total loans had declined in all peer groups of national banks except those of rural banks with resources of $25 million or less. In addition to being the only type of national bank to report increased loan delinquencies, the small rural banks were also the only type to report increases in the ratio of provisions for possible loan losses to average assets. Even with the increased provision for loan losses for the rural bank peer groups, their return on assets and capital ratios are better than those of any other peer group. These banks appear most capable of handling adverse economic problems if the severity of those problems can be kept within reasonable limits in the future. We have initiated a special study of the small rural banks' problems to monitor closely this situation.

Individual national banks requiring special supervisory attention are those in Group Ratings 3 (Close Supervision), 4 (Serious) and 5 (Critical). (A detailed history of the methods of identifying and rating banks requiring special supervisory attention has been provided to the Committee.)

An apparent contradiction to the improving condition of the national banking system is the number of banks receiving special supervisory attention. There were 259 such national banks as of year end, versus 147 for the same date in 1976. This substantial increase is not a reflection of the health of the system. Rather it reflects a deliberate effort by our Office to provide close supervision at the earliest time to developing problems. Such an approach is facilitated by better monitoring methods (the NBSS system in particular), examination procedures that are producing better quality results, and written policies that mandate administrative action when a rating of "3" or worse is assigned.

Group "3" banks now include those having insider abuses, reflecting poor earnings, having excessively strained capital positions or experiencing a declining local economic situation. Therefore, because of expanding criteria determining a bank which requires special supervisory attention, as well as revised and standardized monitoring and examining techniques, the number of banks subject to special attention has substantially increased. Another perspective is provided by comparison of our special supervisory list with the FDIC's list of problem banks, which is designed to identify banks evidencing some risk of involvency. That list contained 60 national banks as of December 31, 1977, while there are 52 national banks in our "4" and "5" categories. The FDIC list included only one national bank in the "Serious Problem-Potential Payout" category, 15 in the "Serious Problem" category, and 44 in the "Other Problems" category.

Our improved methods of identifying problems have also resulted in more administrative actions under the Financial Institutions Supervisory Act of 1966. While some of the provisions of formal administrative actions prohibit certain practices, most establish goals and directions for the bank to effect improvement in the bank's conditions. Our formal administrative actions increased by 70% from 33 cases in 1976 to 56 cases in 1977. There were 97 formal administrative actions issued and still outstanding on December 31, 1977. In the first four months of 1978, 24 actions were completed and an additional 38 are now being processed. (Details on this activity for 1977 have been provided to the Committee.)

We also believe that further expansion will occur on our own list of banks requiring special supervisory attention. This reflects somewhat lagging results of our improved methods, as well as our commitment to take early and appropriate bank supervisory action on those banks with developing problems.

I am also pleased to report the satisfactory progress of our commercial examination process. 1977 was the first complete year under the new examination procedures adopted in 1976. As our examiners have become more familiar with these procedures, we have been able to make several adjustments which have substantially improved their effectiveness. For example, the examination procedures for small banks were modified to improve time efficiencies. This will allow for an increased frequency of examination without affecting quality.

A vital part of the new examination procedure is the analysis of the Bank Performance Report produced by the NBSS. After a year and a half of experience with this system, combined with training sessions for examiners geared toward its use, the field examiners are becoming more sophisticated in their analysis. These reports are also being provided directly to the banks in the hope that they will help the banks to analyze their own condition and make improvements based on this study. The Bank Performance Report has changed considerably since it was first produced in 1976, and it receives constant review for possible further improvements. An example of the latest report has been previously supplied to the Committee.

The recent adoption of a new enforcement and compliance policy generally requires our Office to take formal administrative action under the Financial Institutions Supervisory Act of 1966 on all banks rated 4 or 5. Also, formal administrative actions or the use of a less formal "Memorandum of Understanding" is required for all 3 rated banks. Exceptions to this policy may be granted by the Washington Office.

Another recent development in the Enforcement and Compliance area is the creation of a fraud detection unit. Experienced examiners from each of the regions attend a training session where they receive instructions on how to improve detection and reporting of fraud, safeguard the chain of evidence, and conduct a.proper investigation. These examiners will be used when a potential case of fraud is spotted. This new unit has already proved to be extremely beneficial. Additional training sessions are planned to expand the number of qualified specialists in this area.

Improvements have also been made in the examination procedures for special bank functions, consumer, trust, international, and EDP examinations. New procedures were adopted for each of these areas in 1976 and were improved in 1977 through changes resulting from the experience gained in the year of implementation. Changes included major revision of work programs, establishment of follow-up procedures to monitor more closely problem areas, improvements in the review process at the Washington level and the use of formal administrative actions to effect remedial action in several cases. While each of these specialized areas presently receives individualized attention through the use of a separate report, we are now coordinating the examinations where possible so that a consolidated view of a bank's operations is presented by our examiners to the bank directors at the conclusion of the commercial examination.

This coordinated effort is most important in the examination of the multinational banks due to their size and importance to the national economy. The largest 98 national banks hold 65% of the total resources of all national banks. We have strengthened our examination and review processes for the multinational banks and are developing a sophisticated training program for the examiners who will be responsible for examining these banks in the future. We continue to supervise these banks on a global basis through regular on-site examinations abroad and on a remote basis using reports the banks submit regularly to the Comptroller's Office. The overseas examinations provide the Comptroller's Office with the opportunity to evaluate, at close range, bank systems, management, assets, and foreign exchange activities. We also test the accuracy and timeliness of management reports these foreign locations submit to their head offices.

There is another advantage to these overseas assignments - communication with foreign bank supervisors. Given the scope of multinational activities in the largest national banks and the interdependence of the world's financial markets, the effectiveness of all bank supervision throughout the world determines the safety, soundness and confidence of the world's banking system. The Comptroller's Office recently was invited to join the Group of Ten Committe on Banking Regulations and Supervisory Practices.

The Committee, commonly known as the "Cooke Committee" after its Chairman, Mr. Peter Cooke, head of bank supervision at the Bank of England, operates under the auspices of the Bank for International Settlements in Basle, Switzerland and provides a forum for discussion of bank supervisory concerns common to all committee members. Finally, our Office regularly receives bank supervisors who review our procedures, forms and NBSS for adaptation in their home countries. Conversely, our Office has detached personnel to the International Monetary Fund for the purposes of assisting Fund members in strengthening these bank supervisory programs.

The growth of multinational banking also calls for more appropriate remote supervisory methods. We have been collecting data for some time about national banks' foreign balance sheet and foreign exchange positions. Last June the three federal agencies began collecting and publishing comprehensive data about overseas loan portfolios. In 1979 our NBSS system will receive detailed information about overseas balance sheet and income in order to analyze thoroughly the multinational affairs of national banks.

Finally, multinational banking introduces to the Comptroller's Office and other supervisors complexities not found in domestic banking. The most difficult supervisory questions are the extent of country exposure national banks should carry in their portfolios and the manner in which examiners evaluate that exposure. In response to these questions, we will soon be finalizing a proposed ruling to establish supervisory guidelines over foreign public sector lending. The three agencies have almost completed the development of a uniform approach to portfolio evaluation which concentrates on levels of exposure, potential risk in that exposure, and the manner in which a bank manages its country risk.

This development is an example of the increased coordination and cooperation among the Comptroller's Office, the FDIC and the Federal Reserve System in 1977. This Committee and the GAO study have spurred this improvement. The strides made by the Interagency Coordinating Committee since 1976 are significant. Although there has been an interchange of ideas in the past, there was more of a feeling of cooperation and a willingness to change in 1977. This new openmindedness resulted in several changes in each agency garnered from the successes of the other agencies.

Some of the more significant accomplishments of this new spirit are changes in examination techniques in all three agencies, changes in examination emphasis, an increased number of joint examinations of affiliated banks and holding companies, closer communications concerning problem banks, joint training programs and the recent adoption of a uniform rating system. This new rating system includes five group ratings similar to those presently used by the Comptroller's Office. After implementation, the statistics provided to this Committee by all three agencies should be more comparable. The Interagency Coordinating Committee will continue to work toward the end of improving the supervision of all banks which ultimately affects the overall condition of the banking system.

We are also working with the Federal Reserve Board, the New York Banking Department and the Commonwealth of Virginia Banking Department to produce NBSS generated bank performance reports for their use. Compatibility of data and integrated computer systems are goals all three banking agencies hope to achieve in the future.

In summary, I would emphasize that 1977 and early 1978 have been times of improvement in the condition of the banking system and in the supervisory process. Bankers have applied lessons learned in 1974 and 1975. This is reflected in generally improving earnings, declining loan losses and decreasing classified assets. Current examinations indicate that banks have moved to impose more effective controls and policies. At the same time, significant changes in the examination and supervisory process - including improved surveillance procedures and increased reliance on formal enforcement - have substantially increased our abilities to cope with problems when they do occur. While some uncertainties remain, bankers and bank supervisors have taken additional steps to assure that the American banking system remains sound.

APPENDIX

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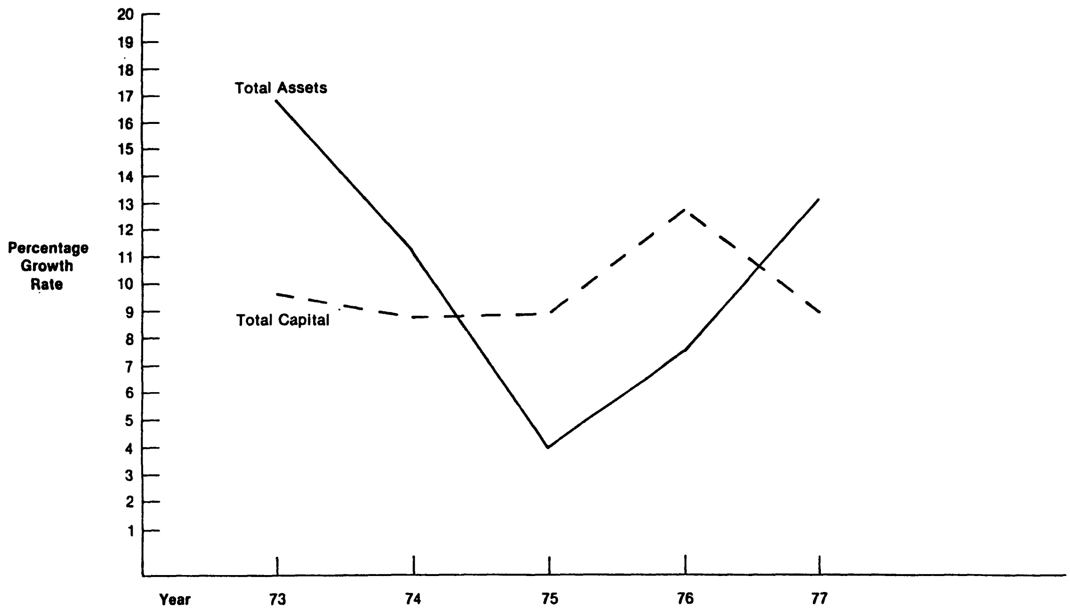
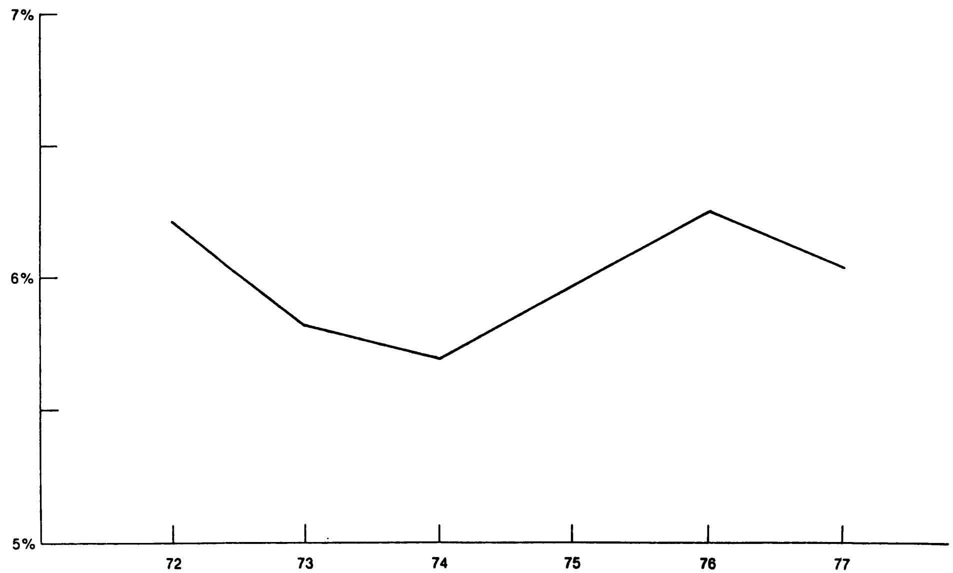
Growth Rates for Total Assets and Total Capital



PERCENTAGE OF TOTAL CAPITAL TO TOTAL ASSETS



COMPTROLLER OF THE CURRENCY
NBSS PEER GROUP DATA

PEER GROUP	TYPE OF BANK	NO. OF BANKS	RETURN ON AVERAGE ASSETS 1975	1976	1977	NET INTEREST EARNINGS 1975	1976	1977	INTEREST EXPENSE/ AVERAGE ASSETS 1975	1976	1977	Net Loan Losses/ Av Total Loans 1975	1976	1977
1-20	ALL BANKS	4,599	.86	.91	.92	3.97	4.17	4.23	2.79	2.92	2.95	.51	.37	.32
2-3	LARGE BANKS $300 MILLION TO $5 BILLION	228	.71	.73	.78	3.70	3.85	3.91	2.78	2.93	2.98	.60	.59	.40
4-20	BANKS UNDER $300 MILLION	4,356	.87	.92	.93	3.99	4.20	4.26	2.79	2.93	2.95	.50	.36	.32
8,9,12, 13,15, 17 & 19	RURAL BANKS	2,353	1.00	1.06	1.06	3.98	4.15	4.19	2.49	2.59	2.60	.26	.28	.25
			Av. Total Capital/ Total Assets			Av. Loans Accept/ Total Capital			Av. Asset Gr. Rate			Av. Capital Gr. Rate		
1-20	ALL BANKS	4,599	8.00	8.26	8.14	6.70	6.49	6.68	13.24	11.77	15.38	9.98	13.78	11.79
2-3	LARGE BANKS $300 MILLION TO $5 BILLION	228	6.80	7.01	6.81	7.77	7.33	7.75	6.00	7.58	12.40	8.79	10.40	9.56
4-20	BANKS UNDER $300 MILLION	4,356	8.07	8.34	8.22	6.62	6.44	6.80	13.67	12.01	15.54	10.04	13.94	11.91
8,9,12, 13,15, 17 & 19	RURAL BANKS	2,353	7.95	8.27	8.23	6.55	6.43	6.74	13.25	9.20	12.27	11.05	14.37	12.01
			Av. Past Due Loans/ Total Loans			Provision Loan Losses /Average Assets			Provision Loan Losses /Average Loans			Reserve Loan Losses/ Average Loans		
1-20	ALL BANKS	4,599	3.47	3.22	3.09	.23	.23	.23	.44	.45	.43	1.07	1.04	1.01
2-3	LARGE BANKS $300 MILLION TO $ 5 BILLION	228	5.03	4.17	3.56	.35	.31	.26	.67	.61	.50	1.18	1.23	1.20
4-20	BANKS UNDER $ 300 MILLION	4,356	3.38	3.16	3.07	.22	.22	.22	.43	.44	.42	1.06	1.03	1.00
8,9,12, 13,15, 17 & 19	RURAL BANKS	2,353	3.15	2.99	3.04	.17	.18	.18	.33	.34	.34	1.07	1.01	.96

COMPTROLLER OF THE CURRENCY
NBSS PEER GROUP DATA
SELECTED KEY RATIOS

Total Assets	Peer Group	Type of Bank	No. of Banks	RETURN ON AVERAGE ASSETS 1972	1973	1974	1975	1976	1977	NET INTEREST EARNINGS/AVERAGE ASSETS 1972	1973	1974	1975	1976	1977
Over $5 billion	1	All Banks	15	.65	.63	.56	.61	.61	.60	2.85	2.81	2.86	2.94	2.87	2.82
$900MM to $5 billion	2	" "	83	.79	.76	.72	.71	.71	.75	3.36	3.41	3.49	3.54	3.65	3.68
$300MM to $900MM	3	" "	145	.82	.77	.75	.71	.75	.79	3.54	3.54	3.64	3.79	3.97	4.05
$100MM to $300MM	4	Branch	229	.86	.86	.83	.80	.84	.87	3.80	3.85	3.96	3.96	4.17	4.23
	5	Unit	157	.89	.90	.88	.83	.88	.95	3.41	3.58	3.59	3.58	3.81	3.93
$40MM to $100MM	6	Urban Branch	191	.87	.85	.77	.75	.84	.83	3.92	4.05	4.21	4.12	4.41	4.48
	7	Urban Unit	267	.93	.92	.90	.83	.86	.93	3.76	3.92	3.99	3.87	4.09	4.19
	8	Rural Branch	218	.94	1.00	.95	.94	.99	1.01	3.88	3.99	4.03	4.03	4.32	4.37
	9	Rural Unit	231	1.02	1.07	1.07	1.04	1.10	1.08	3.69	3.82	3.92	3.87	4.06	4.11
$25MM to $40MM	10	Urban Branch	170	.81	.90	.80	.78	.77	.83	3.74	4.02	4.11	3.99	4.26	4.31
	11	Urban Unit	164	.81	.97	.90	.78	.81	.90	3.74	4.09	4.21	4.00	4.15	4.26
	12	Rural Branch	232	.95	1.05	1.01	.95	1.02	1.02	3.75	4.00	4.12	3.94	4.18	4.21
	13	Rural Unit	236	.97	1.09	1.11	1.08	1.12	1.15	3.61	3.88	4.01	3.89	4.06	4.13
$20MM to $25MM	14	Urban	148	.78	.89	.82	.69	.82	.89	3.70	4.11	4.27	4.12	4.38	4.47
	15	Rural	268	.96	1.10	1.11	1.02	1.09	1.10	3.70	3.98	4.15	3.93	4.13	4.17
$10 MM to $20MM	16	Urban	355	.65	.74	.68	.59	.71	.77	3.69	4.05	4.36	4.07	4.30	4.36
	17	Rural	719	.93	1.10	1.11	1.04	1.10	1.10	3.73	4.04	4.26	4.02	4.18	4.20
less than $10MM	18	Urban	198	.62	.61	.48	.40	.65	.79	3.59	3.96	4.35	4.26	4.44	4.52
	19	Rural	452	.87	1.11	1.06	.91	.97	.96	3.68	4.12	4.41	4.03	4.10	4.13
less than $20MM	20	Chartered Since 12/31/74	134	N/A	N/A	N/A	-1.39	-.84	-.12	N/A	N/A	N/A	1.95	3.57	4.56

COMPTROLLER OF THE CURRENCY
NBSS PEER GROUP DATA
SELECTED KEY RATIOS

Total Assets	Peer Group	Type of Bank	No. of Banks	NON-INTEREST EXPENSE/AVERAGE ASSETS 1972	1973	1974	1975	1976	1977	NET LOAN LOSSES/AVERAGE TOTAL LOANS 1972	1973	1974	1975	1976	1977
Over $5 billion	1	ALL Banks	15	1.64	1.54	1.51	1.59	1.93	1.97	.20	.25	.29	.59	.71	.47
$900MM to $5 billion	2	" "	83	2.37	2.35	2.43	2.59	2.76	2.83	.28	.23	.42	.63	.63	.45
$300MM to $900MM	3	" "	145	2.55	2.58	2.72	2.90	3.03	3.07	.26	.28	.41	.59	.57	.38
$100MM to $300MM	4	" Branch	229	2.64	2.66	2.79	2.86	3.01	3.03	.23	.22	.30	.43	.38	.30
	5	" Unit	157	2.29	2.30	2.36	2.45	2.58	2.64	.20	.22	.35	.49	.51	.28
$40MM to $100MM	6	Urban Branch	191	2.84	2.85	3.02	3.11	3.28	3.27	.29	.29	.46	.44	.41	.33
	7	Urban Unit	267	2.48	2.51	2.61	2.68	2.81	2.85	.26	.33	.43	.54	.52	.39
	8	Rural Branch	218	2.46	2.48	2.55	2.63	2.79	2.80	.21	.20	.27	.34	.34	.26
	9	Rural Unit	231	2.10	2.08	2.13	2.19	2.29	2.32	.19	.21	.28	.30	.29	.22
$25MM to $40MM	10	Urban Branch	170	2.67	2.73	2.89	2.95	3.13	3.14	.25	.29	.37	.40	.46	.30
	11	Urban Unit	164	2.79	2.79	2.93	2.99	3.09	3.07	.33	.40	.50	.60	.62	.44
	12	Rural Branch	232	2.35	2.36	2.45	2.48	2.58	2.61	.23	.23	.31	.33	.38	.27
	13	Rural Unit	236	2.14	2.10	2.12	2.14	2.23	2.24	.24	.27	.30	.30	.33	.21
$20MM to $25MM	14	Urban "	148	2.94	3.07	3.29	3.30	3.41	3.38	.28	.34	.47	.60	.60	.37
	15	Rural "	268	2.27	2.25	2.32	2.36	2.47	2.47	.26	.26	.32	.29	.30	.23
$10 MM to $20MM	16	Urban "	355	3.08	3.20	3.47	3.52	3.58	3.49	.36	.38	.46	.56	.57	.47
	17	Rural "	719	2.39	2.37	2.45	2.49	2.60	2.60	.27	.26	.35	.31	.32	.23
less than $10MM	18	Urban "	198	3.06	3.37	3.90	4.08	3.99	3.91	.27	.25	.36	.39	.53	.34
	19	Rural "	452	2.60	2.61	2.80	2.81	2.89	2.91	.24	.28	.31	.30	.42	.33
less than $20MM	20	Chartered Since 12-31-74	134	N/A	N/A	N/A	4.08	5.05	5.15	N/A	N/A	N/A	.48	.75	.83

COMPTROLLER OF THE CURRENCY
NBSS PEER GROUP DATA
SELECTED KEY RATIOS

Total Assets	Peer Group	Type of Bank	No. of Banks	Asset Growth Rate 1972	1973	1974	1975	1976	1977	Capital Growth Rate 1972	1973	1974	1975	1976	1977
Over $5 billion	1	All Banks	15	18.47	23.91	13.86	1.50	7.30	15.29	11.84	8.46	7.91	9.34	17.87	10.01
$900MM to $5 billion	2	" "	83	16.22	15.20	5.92	3.85	7.45	11.58	13.19	7.96	7.35	9.25	9.62	8.87
$300MM to $900MM	3	" "	145	14.85	10.52	5.90	6.42	7.65	12.86	12.61	9.42	9.71	7.81	10.15	9.96
$100MM to $300MM	4	" Branch	229	15.63	12.27	8.26	9.14	8.70	11.22	14.69	11.25	10.17	8.79	13.78	10.52
	5	" Unit	157	15.21	10.91	7.93	8.12	8.34	11.48	12.50	14.59	10.14	9.58	12.40	12.28
	6	Urban Branch	191	15.61	11.02	6.73	9.65	9.57	14.31	14.55	13.97	9.33	8.04	13.22	12.00
$40MM to $100MM	7	Urban Unit	267	16.54	10.51	7.17	8.84	8.48	13.99	15.03	14.38	13.02	10.83	12.69	12.10
	8	Rural Branch	218	15.49	12.93	8.10	9.52	7.37	12.19	13.46	13.80	10.76	9.62	13.83	10.52
	9	Rural Unit	231	15.00	14.13	9.25	11.51	9.72	11.43	14.05	16.14	11.61	11.86	15.85	11.30
	10	Urban Branch	170	16.18	12.86	7.99	10.62	9.85	13.74	13.19	14.74	11.15	9.57	12.53	11.44
$25MM to $40MM	11	Urban Unit	164	18.78	13.38	7.99	11.24	10.66	13.62	13.14	18.20	11.36	10.02	14.46	12.07
	12	Rural Branch	232	15.86	12.76	10.26	11.17	8.69	12.14	11.26	16.58	12.13	11.19	13.43	11.93
	13	Rural Unit	236	15.34	15.09	10.63	12.02	9.99	12.38	12.61	15.52	15.25	14.18	17.66	13.17
$20MM to $25MM	14	Urban "	148	17.67	15.96	11.84	11.82	11.70	15.26	14.96	13.26	12.52	8.54	13.47	12.29
	15	Rural "	268	15.32	13.82	9.52	11.29	10.01	12.26	11.51	15.43	14.48	11.32	15.15	13.45
$10 MM to $20MM	16	Urban "	355	17.87	13.98	12.97	16.27	12.59	16.65	9.87	13.24	10.16	7.37	11.01	9.78
	17	Rural "	719	15.46	15.48	10.24	11.80	9.25	12.39	10.56	14.50	12.79	11.38	13.13	12.60
less than $10MM	18	Urban "	198	17.84	13.87	15.51	20.85	18.28	18.55	5.86	11.33	8.70	5.09	6.92	10.88
	19	Rural "	452	14.19	16.82	8.01	11.62	8.95	12.32	7.92	13.09	11.25	8.31	10.72	10.53
less than $20MM	20	Chartered Since 12/31/74	134	N/A	N/A	N/A	N/A	62.76	47.42	N/A	N/A	N/A	N/A	- .16	2.39

COMPTROLLER OF THE CURRENCY
NBSS PEER GROUP DATA
SELECTED KEY RATIOS

Total Assets	Peer Group	Type of Bank	No. of Banks	TOTAL CAPITAL/TOTAL ASSETS 1972	1973	1974	1975	1976	1977	LOANS AND ACCEPTANCES/TOTAL CAPITAL 1972	1973	1974	1975	1976	1977
Over $5 billion	1	All Banks	15	5.49	4.80	4.56	4.91	5.36	5.11	10.21	11.67	13.44	12.11	10.77	11.29
$900MM to $5 billion	2	" "	83	6.77	6.37	6.47	6.75	6.89	6.72	8.12	8.85	8.81	8.01	7.55	7.94
$300MM to $900MM	3	" "	145	6.67	6.62	6.77	6.87	7.07	6.86	7.95	8.31	8.05	7.56	7.28	7.72
$100MM to $300MM	4	" Branch	229	7.07	7.05	7.15	7.12	7.52	7.47	7.80	8.13	8.01	7.73	7.20	7.53
	5	" Unit	157	6.85	7.00	7.16	7.27	7.53	7.46	7.38	7.43	7.21	6.86	6.44	6.77
$40MM to $100MM	6	Urban Branch	191	7.22	7.44	7.61	7.49	7.77	7.60	7.61	7.67	7.53	7.45	7.13	7.56
	7	Urban Unit	267	6.86	7.07	7.55	7.61	7.81	7.72	7.55	7.64	7.22	6.82	6.54	6.91
	8	Rural Branch	218	7.31	7.36	7.51	7.51	7.94	7.83	7.48	7.72	7.61	7.39	7.00	7.41
	9	Rural Unit	231	7.08	7.19	7.37	7.40	7.84	7.83	7.18	7.37	7.32	7.10	6.75	7.09
$25MM to $40MM	10	Urban Branch	170	7.24	7.38	7.70	7.59	7.68	7.51	7.56	7.51	7.31	7.30	7.14	7.61
	11	Urban Unit	164	7.28	7.46	7.72	7.56	7.80	7.70	7.03	7.06	6.83	6.81	6.42	6.72
	12	Rural Branch	232	7.23	7.47	7.57	7.57	7.87	7.84	7.25	7.29	7.22	7.06	6.82	7.16
	13	Rural Unit	236	7.13	7.13	7.40	7.50	7.97	8.03	6.97	7.16	6.99	6.88	6.59	6.79
$20MM to $25MM	14	Urban "	148	8.28	8.21	8.54	8.10	8.00	7.76	6.69	6.70	6.53	6.74	6.53	7.10
	15	Rural "	268	7.10	7.26	7.52	7.62	7.97	8.04	6.94	7.03	6.82	6.76	6.56	6.82
$10 MM to $20MM	16	Urban "	355	8.51	9.24	9.68	8.81	8.47	7.96	6.49	6.21	5.95	6.24	6.35	7.04
	17	Rural "	719	7.84	7.98	8.08	8.03	8.30	8.30	6.24	6.37	6.34	6.40	6.40	6.69
less than $10MM	18	Urban "	198	10.58	12.15	13.85	12.31	10.73	9.82	5.13	4.68	4.15	4.67	5.19	5.78
	19	Rural "	452	8.80	8.68	9.62	9.06	9.14	8.94	5.42	5.45	5.34	5.53	5.69	6.02
less than $20MM	20	Chartered Since 12-31-74	134	N/A	N/A	N/A	26.80	19.58	12.93	N/A	N/A	N/A	1.82	2.89	4.83

COMPTROLLER OF THE CURRENCY
NBSS PEER GROUP DATA
SELECTED KEY RATIOS

				PROVISION FOR POSSIBLE LOAN LOSSES/ AVERAGE ASSETS						PAST DUE AS % OF TOTAL LOANS					
Total Assets	Peer Group	Type of Bank	No. of Banks	1972	1973	1974	1975	1976	1977	1972	1973	1974	1975	1976	1977
Over $5 billion	1	All Banks	15	.11	.13	.22	.39	.39	.30				5.18	4.39	4.09
$900MM to $5 billion	2	" "	83	.15	.15	.25	.38	.35	.29				6.02	4.79	3.90
$300MM to $900MM	3	" "	145	.14	.15	.22	.33	.29	.25				4.51	3.94	3.37
$100MM to $300MM	4	" Branch	229	.13	.13	.18	.24	.23	.21				3.39	3.39	3.05
	5	" Unit	157	.11	.12	.19	.26	.23	.18				3.64	3.19	2.76
$40MM to $100MM *	6	Urban Branch	191	.15	.16	.26	.27	.25	.25				3.57	3.22	3.07
	7	Urban Unit	267	.14	.16	.21	.26	.29	.24				3.77	3.35	3.04
	8	Rural Branch	218	.12	.12	.14	.19	.20	.19				3.59	3.16	3.06
	9	Rural Unit	231	.10	.11	.14	.15	.15	.17				2.96	3.00	2.91
$25MM to $40MM	10	Urban Branch	170	.13	.14	.20	.20	.27	.21				3.79	3.36	3.08
	11	Urban Unit	164	.18	.18	.27	.32	.34	.26				3.96	3.66	3.25
	12	Rural Branch	232	.11	.12	.16	.18	.19	.20				3.63	3.29	3.20
	13	Rural Unit	236	.12	.14	.14	.15	.15	.15				3.03	2.81	2.78
$20MM to $25MM	14	Urban "	148	.16	.18	.26	.33	.31	.28				3.62	3.70	3.27
	15	Rural "	268	.13	.12	.16	.14	.16	.17				3.09	3.08	3.16
$10 MM to $20MM	16	Urban "	355	.18	.20	.27	.31	.31	.34				3.82	3.65	3.37
	17	Rural "	719	.14	.13	.16	.17	.17	.18				3.00	2.91	3.02
less than $10MM	18	Urban "	198	.16	.15	.22	.29	.27	.28				3.39	3.10	2.88
	19	Rural "	452	.14	.16	.19	.18	.20	.23				3.20	2.97	3.14
less than $20MM	20	Chartered Since 12-31-74	134	N/A	N/A	N/A	.15	.27	.40				1.05	1.80	2.90

COMPTROLLER OF THE CURRENCY
NBSS PEER GROUP DATA
SELECTED KEY RATIOS

				PROVISION POSSIBLE LOAN LOSSES / AVERAGE LOANS						RESERVE FOR POSSIBLE LOAN LOSSES ENDING BALANCE/AVG TOTAL LOANS					
Total Assets	Peer Group	Type of Bank	No. of Banks	1972	1973	1974	1975	1976	1977	1972	1973	1974	1975	1976	1977
Over $5 billion	1	All Banks	15	.20	.25	.40	.68	.73	.57				.97	1.09	1.07
$900MM to $5 billion	2	" "	83	.29	.28	.45	.72	.68	.56				1.12	1.22	1.21
$300MM to $900MM	3	" "	145	.27	.28	.41	.63	.57	.48				1.22	1.23	1.20
$100MM to $300MM	4	" Branch	229	.24	.24	.33	.44	.43	.38				1.11	1.13	1.09
	5	" Unit	157	.24	.24	.38	.55	.49	.36				1.28	1.31	1.26
$40MM to $100MM	6	Urban Branch	191	.29	.30	.47	.50	.46	.45				1.03	1.05	1.04
	7	Urban Unit	267	.30	.32	.39	.54	.54	.48				1.14	1.17	1.13
	8	Rural Branch	218	.22	.21	.25	.34	.36	.33				1.09	1.07	1.02
	9	Rural Unit	231	.20	.21	.27	.30	.29	.31				1.16	1.09	1.03
$25MM to $40MM	10	Urban Branch	170	.27	.28	.37	.39	.47	.39				.94	.97	.94
	11	Urban Unit	164	.37	.37	.54	.65	.70	.53				1.06	1.09	1.07
	12	Rural Branch	232	.22	.23	.29	.34	.37	.36				1.12	1.06	1.02
	13	Rural Unit	236	.25	.28	.28	.31	.29	.28				1.18	1.07	.98
$20MM to $25MM	14	Urban "	148	.33	.36	.47	.67	.62	.54				1.02	1.04	1.04
	15	Rural "	268	.26	.25	.31	.29	.30	.31				1.05	.99	.93
$10MM to $20MM	16	Urban "	355	.39	.42	.55	.62	.62	.61				.91	.94	.92
	17	Rural "	719	.29	.27	.33	.33	.32	.32				1.08	1.03	.98
less than $10MM	18	Urban "	198	.32	.34	.52	.58	.57	.53				.79	.76	.83
	19	Rural "	452	.31	.35	.41	.38	.41	.44				.90	.88	.85
less than $20MM	20	Chartered Since 12-31-74	134	N/A	N/A	N/A	.39	.70	.81				.48	.75	.83

The CHAIRMAN. Thank you very much.
Mr. LeMaistre.

STATEMENT OF GEORGE LeMAISTRE, CHAIRMAN, FEDERAL DEPOSIT INSURANCE CORPORATION

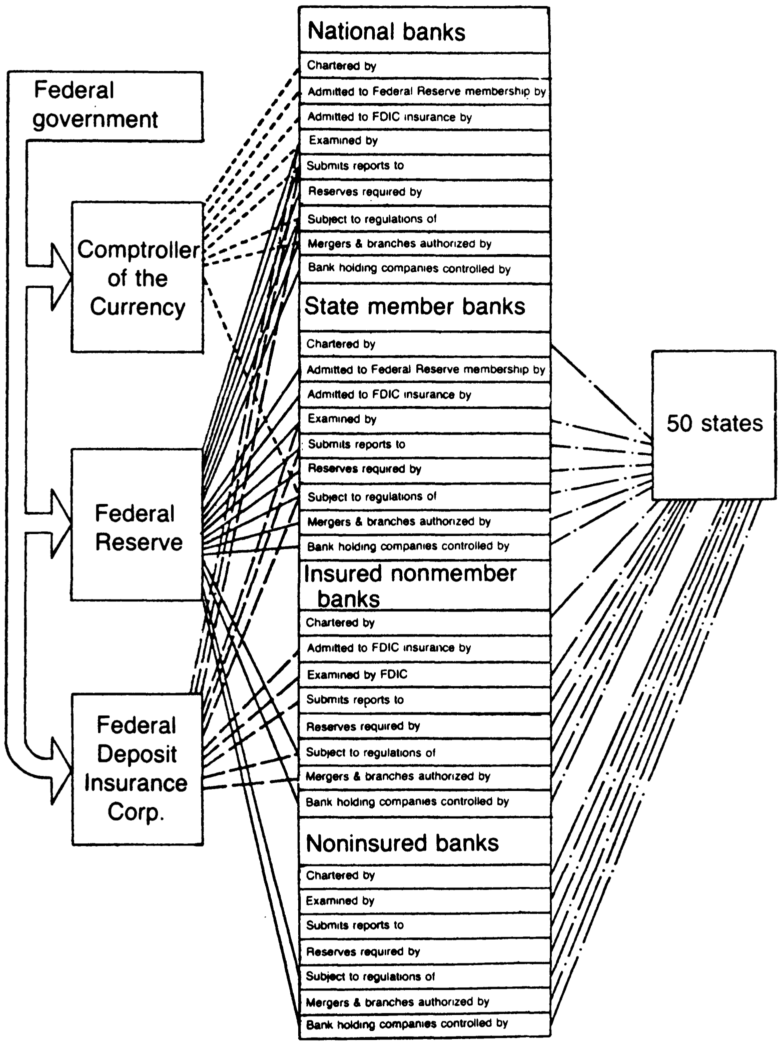
Mr. LEMAISTRE. Mr. Chairman, I, too, would like to file the statement and to summarize it because we all looked at the same figures and we came up with pretty much the same conclusions.

The CHAIRMAN. Your entire statement will be printed in full in the record.

Mr. LEMAISTRE. I would like, however, to take a few minutes to talk about the problem bank chart. I would like to talk about the problem banks for a little bit if I may because, as you know, we have for a number of years maintained a problem bank list. It covers all the insured banks in the country, not only the ones we supervise but the ones that are supervised by the Fed and the Comptroller. We plan to keep this list operating in tandem with the recently announced interagency uniform bank rating system which we are just beginning to use. It's being developed by the Interagency Supervisory Committee and we will hopefully come forward with some kind of a uniform rating system that will be a little more meaningful than our present methods.

[The chart referred to above and the complete statement of Mr. LeMaistre follow:]

THE TANGLED WEB OF BANK REGULATION



Source: *Hearings on Financial Structure and Regulation before the Subcomm. on Financial Institutions of the Senate Comm. on Banking, Housing and Urban Affairs*, 93d Cong., 1st Sess. 619 (1973).

Statement by

George A. LeMaistre, Chairman
Federal Deposit Insurance Corporation

I am pleased to report to the Committee in this second regular oversight hearing on the condition of the banking industry. As my predecessor, Robert Barnett, stated last year, we believe that routine disclosure and discussion of information concerning the banking industry is in the public interest. These hearings will contribute to an understanding of the banking system's strengths and weaknesses.

I. GENERAL CONDITION OF THE BANKING SYSTEM

It is important that an assessment of the performance of the banking industry be viewed within the context of recent economic conditions and cyclical developments. Certain banks will inevitably develop problems in response to troubled economic times, and many of the bank problems over the last four years have, in fact, been attributable to the environment in which the banks operated. The events surrounding the economic downturn of the 1974-75 period indicated clearly that the banking industry, like other sectors of the economy, is vulnerable to the vagaries of general economic and business conditions. Because banks have become more aggressive and more competitive, the industry has suffered more than it would have 10 or 20 years ago from major economic disruptions such as high and fluctuating interest and inflation rates and various traumatic shocks, most notably the increased price of energy. High loan losses, weakened earnings and capital positions, and other problems stemming from the most severe economic contraction since the Great Depression, all placed great strains on our banking system. The system held up remarkably well given the magnitude and the variety of shocks with which it had to cope.

Notwithstanding the problems we have witnessed in the banking industry in recent years, it is my opinion that the industry has remained sound. Furthermore, the industry has been strengthened by the experiences of the 1970s and has exhibited the ability to adapt and learn from past mistakes. Last year the FDIC reported that, on the whole, the banking industry showed signs of recovering from the 1974-1975 downturn in the economy. Statistical trends indicated greater overall stability, increased capital ratios, improved liquidity, moderating loan losses, and higher earnings. Statistics for 1977 reflect a continuation of many of these trends. This, of course, is consistent with continued general economic recovery from the recession of 1974-75.

Since the spring of 1975, the economy has advanced at an average annual rate of about 5.1 percent in real GNP. This growth has been accompanied by improvements in employment and business profits and in most other sectors of the economy which, in turn, have provided a favorable environment for banks.

However, inflation remained an important problem during 1977. The price level advanced by close to 6 percent, pushing the increase in nominal GNP to more than 11 percent. Reflecting both real and inflationary growth in GNP, domestic deposits at insured commercial banks increased by 11.4 percent in 1977 and total deposits, including those in foreign offices of U. S. banks, increased by 12.5 percent (see TABLE 1).

TABLE 1

SELECTED DATA FOR ALL INSURED COMMERCIAL BANKS

	Year-end 1977 $ billions	% Change '76-'77
Net Loans	715.7	15.3
U. S. Treasury Securities	95.9	-1.0
Total Assets	1,339.0	13.2
Domestic Deposits	925.5	11.4
Deposits in Foreign Offices	190.8	18.5
Total Deposits	1,116.3	12.5
Equity Capital	79.3	9.7
Total Capital	85.1	9.9

	1977	% Change '76-'77
Operating Income	90.3	12.0
Operating Expenses	78.7	11.3
Net Income	8.9	13.4
Net Loan Losses	2.8	-20.1

	Year-end '77 %
Net Loans/Total Deposits	64.1
Equity/Total Assets	5.9
Equity/Net Loans	11.1
Total Capital/Total Assets	6.4
Total Capital/Net Loans	11.9

	1977
Operating Income/Average Assets	7.2
Net Income/Average Assets	0.71
Net Loan Losses/Average Net Loans	0.42

Growth in loans was even greater due to the strength of the economic recovery during 1977. Loans, net of reserves, increased by more than 15 percent -- the increase was greater for nonmember banks, for smaller banks, and for banks outside the nation's money centers. Because loans increased at a faster percentage rate than deposits, the aggregated loan-deposit ratio rose above 64 percent for all insured commercial banks by the end of 1977. This was still considerably below the levels that existed during 1974. Although loan expansion was accompanied by a reduction in liquidity, this reduction was not substantial.

Banks increased their net income by 13.4 percent in 1977. This reflected the expanded earning asset base, relatively stable margins between interest earned on assets and interest paid on deposits and other funds, and a decline in loan loss provisions. Actually, aggregate loan loss provisions significantly exceeded net loan charge-offs (realized losses) for banks in 1977, in part because of the sizable loan growth. Net charge-offs declined by about 20 percent from 1976 levels despite the loan expansion. This was the first year since 1972 that the dollar volume of bank loan losses actually declined. From a supervisory standpoint this was a very welcome, though not surprising, development. Although the 1977 ratio of net loan losses to average outstanding loans was about double the level that existed in 1972, it was substantially below the comparable figures for 1975 and 1976.

Despite favorable earnings and sizable additions to equity through retained earnings, the ratio of equity to bank assets declined in 1977. Because banks have relied principally on retained earnings as a source of equity, it is extremely difficult for banks to maintain their capital ratios in periods of double digit asset expansion. In 1977, net income to equity capital (rate of return on equity) was about 12 percent. However, even if all earnings had been retained and added to equity, the capital ratio would have fallen because total assets increased by more than 13 percent. It should be noted that historically the rate of return on equity does not seem to be related to the inflation rate, whereas the rate of expansion in bank assets does.

During the first quarter of 1978, most banks appeared to be continuing to perform well. An analysis of first quarter earnings reports for large banks indicates that the vast majority reported improved first quarter earnings compared to the first quarter of 1977. In many instances, the improvements were sizable. The particularly favorable performance of many regional and nonmoney-center banks strongly indicates that this favorable performance characterized the behavior of small as well as large banks. Loan charge-offs continued to decline and this apparently contributed importantly to first quarter earnings gains. At this point, many financial analysts appear to expect bank earnings to show percentage gains in 1978 comparable to those experienced in 1977.

Bank performance during the balance of the year and beyond will depend importantly on economic developments. Weather conditions, the coal strike and other factors contributed to a virtually flat first quarter. Most forecasters agree that the second quarter of 1978 will be very strong and that real growth for the year will be in the 4 to 5 percent range. Most also agree that inflation will exceed 6 percent. However, as we move into the latter part of the year, forecasts of economic and financial market conditions diverge. Consensus forecasts appear to imply banks will experience slower deposit growth -- that has already occurred so far this year. Combined with continued strong loan demand, slower deposit growth is apt to put moderate pressure on the liquidity position of some banks. At the same time, we expect further improvement with respect to loan losses. Of course, we recognize that an acceleration in the inflation rate could make financial markets uncomfortably tight and eventually this could have an unfavorable impact on bank customers and banks. A weakening in the economy would also have a detrimental effect. Although banks are not entirely insulated from economic fluctuations, I believe that most banks and the system as a whole can effectively withstand such fluctuations.

II. RATING THE CONDITION AND SOUNDNESS OF BANKS

The Federal Deposit Insurance Corporation, together with the Office of the Comptroller of the Currency and the Board of Governors of the Federal Reserve System, recently adopted, in principle, a new system for rating the condition and soundness of the nation's banks for supervisory purposes. The Uniform

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Interagency Bank Rating System will be based on an evaluation of five dimensions of a bank's operations.

Capital adequacy

Asset quality

Management/administration

Earnings

Liquidity

Together these five dimensions reflect in a comprehensive fashion an institution's financial condition, compliance with banking regulations and statutes, and overall soundness. The rating system will have two main elements:

(1) An assessment and rating on a scale of one through five of <u>each</u> of the five criteria;

(2) A combination of the five basic rankings into a composite rating of the bank's condition and soundness. Based on the composite rating each bank will be assigned to one of five groups, ranging from banks that are sound in almost every respect to those with excessive weaknesses requiring close supervision.

Although the new system will be used to evaluate individual banks, it may be instructive to take a look at aggregate bank data in the context of the system. (See TABLE 2.)

<u>CAPITAL ADEQUACY</u>

Total capital-to-assets ratios and growth rates of capital, which are often used as proxies of the health of the banking industry and of individual bank soundness, are monitored from quarterly call reports. As previously indicated, total assets of insured commercial banks grew more rapidly than capital last year. As a consequence, total capital-to-asset ratios declined from 6.5 percent to 6.3 percent from year-end 1976 to year-end 1977. The capital-asset ratio for all banks in 1977 remained below the pre-recession level of 1972. The only notable exception to the industry averages were banks under $100 million in assets which showed capital-asset ratios substantially higher than the 1972 levels. Bank capital as a percentage of risk assets also declined in 1972.

In an environment where price increases are substantial, bank deposits are apt to grow at a faster pace than capital, causing declines in the capital-asset ratio. For example, if banks earn an average of 12 percent on capital and pay out a third of those earnings in dividends, equity capital would increase by 8 percent a year. If deposits grow at a much faster rate than that, it becomes difficult for banks to maintain their capital ratios. Even sales of debt will not necessarily increase capital ratios unless the effect of the debt sale is to increase the debt-equity ratio of the banks in question.

Although the significance of the decline in capital ratios over the last several years is not easy to assess in view of the simultaneous changes that have occurred in bank portfolios, access to borrowed funds, external economic conditions, and other elements of banks' total exposure to risk, there is some reason to believe that the decline may reflect a deterioration in the soundness of the banking system, particularly among the very large banks. Some banks recognized this in the recent recession and took serious steps to rebuild capital positions; others did not. All banks have been constrained by unattractive market prices for bank stocks which continue to discourage the sale of new equity capital.

ASSET QUALITY

Insured commercial banks, on balance, experienced considerable improvement in asset quality in 1977 as net loan losses declined. For all commercial banks, net loan losses as a percentage of average total loans dropped from 0.6 percent in 1976 to 0.4 percent in 1977. However, the 1977 ratio remains higher than the pre-recession levels for banks in all size categories. Banks over $1 billion in assets had the highest net loss ratios in 1977. Banks under $100 million have had the lowest loan loss ratios during the past three years.

Comparison of write-offs against total assets and capital tells much the same story. Net assets written off in 1977 equaled 0.24 percent of total assets, down from 0.34 percent in both 1975 and 1976, but still higher than the 0.21 percent average of 1972-74. Net loan write-offs equaled 3.2 percent of total capital in 1977, down from 4.5 percent in 1976 and 4.7 percent in 1975. Write-offs equaled 3.1 percent of capital in 1974.

MANAGEMENT

Bank management is something that must, of course, be evaluated on an individual bank basis. It is true that management performance is generally reflected in the other four dimensions of a bank's operations. Sometimes where management has changed or where special circumstances prevail, management performance or potential is not fully reflected in those dimensions that lend themselves to greater quantification.

EARNINGS

The improved condition of the banking system is further illustrated by the recovery of bank earnings in 1977. For the year ending December 1977, total operating income for all insured commercial banks rose 12.0 percent while total operating expenses increased 11.3 percent. This increase marked the first time in the last four years that operating income increased at a greater rate than expenses. Net income after taxes jumped 13.4 percent during 1977.

Similarly, the ratio of net income to average equity capital increased from 11.2 percent at year-end 1976 to 11.7 percent at year-end 1977. However, the improvement in earnings was not distributed uniformly across all sizes of banks. Net earnings to equity capital improved most dramatically for banks in the $100 million to $1 billion in assets range. Banks in the $1 to $5 billion range showed only marginal improvement, and banks over $5 billion in assets showed a continued decline in net income to capital, dropping from 11.9 percent at the end of 1976 to 11.4 percent at the end of 1977.

LIQUIDITY

In 1977, total assets of consolidated foreign and domestic offices of insured banks increased by 13.2 percent. While net loans increased by 15.3 percent, total deposits grew at the slower rate of 12.5 percent, and consequently the percentage of total loans to total deposits increased over the year from 63.3 to 64.8 percent.

The greater increase in loans relative to deposits suggests a slight tightening of liquidity for all size categories of banks. However, the loan-deposit ratio at year-end 1977 was below the year-end 1974 ratio of 67 percent.

The tendency toward tightened liquidity is also evidenced by changes in bank holdings of assets readily converted to cash and by increased reliance on interest sensitive funds. Although total assets increased by 13.2 percent during 1977, the combined bank holdings of U. S. Treasury securities and Federal agency obligations remained unchanged. Increases in total bank assets were financed in part by an 18 percent increase in Federal funds purchased and securities sold and a 40 percent increase in other borrowed money. However, these increases in purchased funds are not excessive since they approximate the average annual changes over the previous five years.

III. PROBLEM BANKS

Although aggregate data are important for assessing the condition of banks in total, the supervisory process is concerned with the condition of individual institutions. The FDIC maintains a problem bank list covering all insured banks for deposit insurance exposure purposes. (This list will be maintained in tandem with the new Interagency Uniform Bank Rating System.) This list includes troubled member as well as nonmember insured commercial and mutual savings banks. The problem bank list and the composition of banks on it remain of considerable current interest. However, the information provided by problem bank statistics requires considerable interpretation if it is to be used as an indicator of the change in the condition of the banking system. Bank management and policy deficiencies are reflected in the FDIC problem bank list with a lag. This lag is attributable in part to the time it takes to examine a bank and complete the review and analysis process, as well as the time period between examinations.

In addition to time delays, many banks are still working out the adverse effects of the 1974-75 recession which left them with large volumes of problem loans, particularly in real estate. The nature of these problem loans does not lend itself to rapid improvement and therefore we expect future declines in the number of problem banks to be gradual. At the same time, it is important to recognize that the FDIC problem bank list is very fluid; banks are constantly added and subtracted from it. For example, in 1977, 165 banks were added to the list and 176 removed. In 1976, 188 banks were added and 158 were removed. At year-end 1977, 62 percent of the listed banks had been in problem status less than two years and 86 percent less than three years.

With these considerations in mind, I would like to report the latest figures from our problem bank list. The number of banks on the list reached a high of 385 in late 1976 (379 at year-end 1976) after a steady increase from 156 at the end of 1973. Since that peak, the total has fluctuated but has generally declined, albeit at a very slow pace. The list was at 368 on both June 30 and December 31, 1977, and by April 30, 1978, it had declined to 364.

It is important to note that the decline in the number of problem banks has been most pronounced in the Serious Problem - Potential Payout category, the most critical category on our list. There were 28 such banks at year-end 1975, 23 at the end of 1976, 12 at year-end 1977, but only 7 on April 30 of this year. None of these 7 was over $20 million in size.

To place these problem bank statistics in proper perspective, we must note that only 2.5 percent of insured banks has been classified as problem banks at any given time. Naturally, the economic downswing in 1974-1975 uncovered weaknesses in certain institutions and adversely affected earnings, capital, and loan losses in general. Although repercussions from the recent recession keeps the problem bank list at higher levels than in the early 1970s, evidence of substantial reductions in loan losses in 1977 suggests that the number of banks on our problem bank list does not fully reflect the improvement that is taking place in the banking system.

IV. AREAS OF SPECIAL CONCERN

There are several areas of special concern to both the banking industry and bank regulators which warrant separate mention. These include the performance of loans to real estate investment trusts (REITs), evaluation of the agricultural credit situation, international lending activities in developing countries, and the threat of potential disintermediation.

REITs AND LOAN LOSSES

A large portion of today's banking problems remain related to REIT loans. Charge-offs of loans to REITs have been by far the largest individual loss to the banking industry, and REIT losses have comprised the overwhelming majority of losses for banks over $1 billion in assets.

However, improvement in the real estate market has increasingly aided the REIT industry, creating markets for REIT property obtained through foreclosure and, thus, reducing holdings of these properties slowly throughout 1977. In addition, there is a growing trend among REITs to engage in successful direct management of the more attractive foreclosed properties as income producing ventures. Overall, REITs are recovering from the low point of mid-1976, as evidenced by consecutive increases in dividend payout through the first quarter of 1978 and an 8.3 percent increase in the REIT share price index for 1977.

It remains true that REIT loans will require some time to be worked out of bank portfolios. The inflexibility of REITs is illustrated by the fact that 35 percent of industry assets consist of foreclosed property. Moreover, with $6.6 billion in bank debt against $14.6 billion in assets, recent increases in interest rates will significantly increase operating expenses of the industry. However, improved REIT earnings and stock prices portend an improvement in this major source of problem loans.

LENDING TO DEVELOPING COUNTRIES

Our analysis indicates that U. S. banks have not dashed with abandon into loan involvements in developing countries, and that commercial lending in these countries has proceeded in an orderly fashion. In particular, there is evidence that banks are aware of the importance of country exposure limits, and that banks base their lending decisions on a number of criteria which govern the expected performance of a loan with respect to geographic location as well as more traditional creditworthiness evaluations. Also, recent lending surveys indicate that banks have diversified their exposure across countries to insulate themselves from isolated adverse developments in any given country.

However, the past record of international lending does not guarantee the future record. With this in mind, the Federal bank regulatory agencies are presently enhancing procedures to monitor foreign lending to ensure the maintenance of prudent market practices and exposures to risk. Additional information on foreign operations of banks will be required in the December 1978 Reports of Condition and Income. The FDIC has also undertaken, in concert with the other two Federal bank regulatory agencies, a program directed toward the development of a comprehensive survey of foreign loans on a country-by-country basis. This is now an established semiannual report which covers claims on foreign residents held at all domestic and foreign offices of U. S. banks which have, on a fully consolidated basis, total outstanding claims on residents of foreign countries exceeding $20 million and which have: (1) a branch in a foreign country; (2) a subsidiary in a foreign country; (3) an Edge Act or Agreement subsidiary; or (4) a branch in Puerto Rico or in any U. S. territory or possession.

AGRICULTURAL LENDING

The latest national statistics show that the agricultural lending problem has subsided. Rural banks are not experiencing the liquidity pressures of last year primarily because deposit inflows have increased and loan repayment experiences have improved. These improvements have been achieved with the help of various Federal government programs, such as price supports and disaster loans, use of correspondent relations, and the channeling of farm credit demand toward nonbank sources.

The situation for agricultural banks should continue to improve for the next two years, barring unforeseen weather-created disasters. The latest U. S. D. A. forecasts for 1978 and 1979 show agricultural prices improving and farm income increasing. It is expected that both deposit inflows and loan repayments will continue to improve. Credit demands on rural banks may subside as farm income improves and new Federal set-aside programs and the expanded credit opportunities with the Farm Credit Bureau become operative. However, the number of banks susceptible to agricultural conditions remains at an unusually high level. The Federal Deposit Insurance Corporation is closely monitoring the situation together with the Comptroller of the Currency and the Federal Reserve through the Interagency Supervisory Committee Task Force on Agricultural Loans.

POTENTIAL DISINTERMEDIATION

Recent increases in interest rates and the susceptibility of banks and particularly thrift institutions to disintermediation have caused concern in the regulatory agencies. Short-term market interest rates recently reached levels at which we would expect time and savings deposits to be moderately vulnerable to transfers to market instruments. This vulnerability would increase considerably should market rates advance further.

The Federal Reserve Board, the Federal Home Loan Bank Board and the FDIC recently agreed on certain changes in deposit interest rate ceilings designed to insulate financial intermediaries from potential disintermediation. An increase of one-quarter percent will be permitted on certificates maturing in eight years or more, and banks and thrift institutions will be permitted to offer a 6-month "money market" certificate whose rate is tied to the most recent 6-month Treasury Bill auction rate (discount basis). Banks will be permitted to match that rate; however, thrifts will be able to pay one-quarter percent higher. These actions are designed to forestall the diversion of financial resources from intermediaries into direct market financing should interest rates rise higher. Such diversion or disintermediation would tend to limit the availability of funds for housing and other sectors heavily dependent on intermediaries. These actions also protect banks and thrift institutions from substantial deposit and share outflows that would adversely affect their liquidity and overall condition.

However, there may be some reason to be concerned about the earnings of thrift institutions if there is a sharp increase in interest rates. With the new "money market" certificate, deposit rates on a substantial volume of deposits could rise considerably. It is well known that rates earned on thrift institution asset portfolios adjust only gradually over time because of the long asset maturities. Thus, a period of high interest rates could well place thrift institutions in a severe earnings squeeze.

V. STEPS TAKEN BY THE FDIC

During the past few years the FDIC has taken several steps to improve its monitoring of banks on a timely basis and in identifying and attempting to rectify problem situations. To better monitor the condition of the banking system, the FDIC has taken several steps to improve the quality and timeliness of balance sheet and income statements regularly reported by banks. The people in our data-gathering and analysis departments, together with their counterparts in the other two Federal bank regulatory agencies, have effected a substantial reduction in the time it takes banks to report and in the time it takes the agencies to process the reports. Concurrently, efforts are being made to increase the accuracy of the information gathered in the Reports of Condition and Income. During 1977, the FDIC participated in a number of "Call Report Clinics," sponsored by the Bank Administration Institute, designed to assist banks in the preparation of the call reports. There were approximately 5,000 participants in attendance in the 40 sessions held in various parts of the United States.

Quality improvements also are being made in the call reports themselves. During 1977 the FDIC, along with the Board of Governors of the Federal Reserve System and the Comptroller of the Currency, completed and issued for public comment a number of proposed revisions of the Reports of Income and Condition for banks. These revisions relate mainly to additional information on operations of "large" banks, and on the foreign operations of banks, continuing a plan of revisions partially implemented in 1976. The proposed revisions, as modified by consideration of the comments received from banks and others, will be implemented in the December 1978 Reports of Condition and Income.

The FDIC's Integrated Monitoring System (IMS), a computerized analysis system for monitoring bank performance between examinations, was implemented nationwide on November 1, 1977. The system is based on data submitted by commercial banks in their Reports of Condition and Income. Work is now underway to extend the system to mutual savings banks as well.

IMS enables the Corporation to identify with more accuracy banks, or particular aspects of a bank's operations, that especially merit closer supervisory attention. As such, it promotes more efficient use of limited human-power resources, both in the examination report itself and in the review process. A primary goal of IMS is to alert the FDIC to a deteriorating situation before it assumes serious proportions and thereby facilitate a swifter response by the FDIC. At present IMS utilizes several screening tests which measure a bank's capital adequacy, liquidity, profitability, and asset and liability mix and growth. On-line capabilities are provided for more in-depth and detailed analysis of apparent problems.

The cornerstone of the bank supervisory process, however, is still the on-site examination. In 1978, the FDIC is continuing its policy of examining insured nonmember banks in accordance with recently implemented policies on examination priorities, frequency, and scope. Top priority in examination is given to banks with known supervisory or financial problems. Such banks are examined at least once every 12 months. Large banks that do not present supervisory or financial problems, together with smaller banks that do not present supervisory or financial problems but which fail to meet established criteria indicating satisfactory management, adequate capital, acceptable fidelity coverage, acceptable earnings, and adequate internal routine and controls are second in priority. Such banks receive a full-scale examination during each 18-month period, with no more than 24 months between examinations. The remaining smaller banks which do meet the established criteria are given the lowest priority. In such banks a modified examination is alternated with a full-scale examination.

Finally, the FDIC continues to promote more effective management of the banking industry. Our increased emphasis on the duties and responsibilities of a bank director has been reflected in our regulations requiring closer director supervision of insider transactions and by our instructions to field examiners to meet with bank boards of directors as part of our regular examinations of banks. Dedicated, responsible directors can do much to supervise the affairs of the banks they serve and in so doing eliminate much of the need for close supervision of their institutions by bank regulators.

Attachment

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TABLE 2

SELECTED RATIOS FOR CONSOLIDATED DOMESTIC AND FOREIGN OFFICES OF INSURED BANKS, 1972-1977

			ASSET SIZE				
	Date	Total	0-100 Million	100-500 Million	500 Million-1 Billion	1-5 Billion	Over 5 Billion
Percentage of Total Capital to Total Assets	12-31-72	6.6	7.6	7.2	7.2	6.2	5.3
	12-31-73	6.3	7.8	7.2	7.1	5.7	4.5
	12-31-74	6.2	8.1	7.4	7.0	6.0	4.1
	12-31-75	6.4	8.1	7.4	7.2	6.3	4.4
	12-31-76	6.5	8.1	7.4	7.1	6.6	4.8
	12-31-77	6.3	8.1	7.3	7.1	6.3	4.6
Percentage of Total Capital to Risk Assets	12-31-72	9.3	10.8	9.8	9.6	8.8	7.5
	12-31-73	8.6	10.7	9.5	9.1	8.1	6.3
	12-31-74	8.3	10.9	9.7	8.9	8.0	5.7
	12-31-75	8.9	11.2	10.0	9.5	8.8	6.3
	12-31-76	9.1	11.1	10.0	9.5	9.3	7.0
	12-31-77	8.8	10.8	9.9	9.5	9.0	6.6
Percentage of Net Loan Losses to Average Total Loans	12-31-72	.2	.2	.2	.3	.2	.2
	12-31-73	.2	.2	.2	.2	.3	.2
	12-31-74	.4	.4	.4	.4	.4	.3
	12-31-75	.6	.4	.6	.6	.6	.6
	12-31-76	.6	.4	.5	.5	.7	.7
	12-31-77	.4	.3	.4	.4	.5	.5
Percentage of Net Income to Average Equity Capital	12-31-72	12.0	11.6	12.4	11.8	10.9	13.2
	12-31-73	12.6	12.6	12.6	11.8	12.9	12.8
	12-31-74	12.2	11.9	11.7	10.9	10.9	14.6
	12-31-75	11.5	10.8	10.5	10.6	12.3	13.1
	12-31-76	11.2	11.2	10.9	9.7	11.5	11.9
	12-31-77	11.7	11.9	11.9	11.2	11.6	11.4

The CHAIRMAN. Thank you very much, Mr. LeMaistre.

Mr. LeMaistre, I'd like to start off with a specific individual. The Alabama State Treasurer, Melba Till Allen, was convicted yesterday by a local court on the first of five indictments charging her with manipulating State deposits to obtain loans or credit for herself, her family or her business interests. Mrs. Allen, who is responsible for placing $400 million in State funds in Alabama banks, took office in 1975. Since then, she or her ventures received $3.5 million in loans from 58 federally insured banks, including 20 national banks which received State funds. Many of those loans are now classified and interest has not been paid on some of them.

The Montgomery, Ala. district attorney, James Evans, who is handling the Allen investigation, said the FDIC should have known about the questionable Allen loans as early as the spring of 1976 when the FDIC bank examinations began noticing large unsecured loans to her. Alabama newspapers first exposed last fall the pattern of bank loans to her and the correlation between these loans and State deposits in banks and the Alabama Ethics Commission issued a sharp report last December, 5 months ago, on Mrs. Allen's manipulation of State funds for personal gains.

Despite all those signals of the possible misuse of State funds to gain questionable loans and the possible deposit in federally insured State banks, the FDIC made no move to investigate the matter until last Friday, on the eve of Mrs. Allen's trial.

How long has the FDIC known about the preferential bank loans to Mrs. Allen and the possible misuse of State deposits?

Mr. LEMAISTRE. Mr. Chairman, I can't tell you how long they have known about it. I can tell you that in November 1976 the regional director of our Atlanta office sent out to all field examiners a memorandum telling them that he had seen examination reports of a number of loans to the State Treasurer of the State of Alabama and asking them to look at those loans closely for evidence of preferential treatment.

I don't know that there's anything in this prosecution that has to do with preferential treatment. The lady was convicted, as I understand it, of misusing her office for private gain. That doesn't mean she got a loan at any better rate than you or I would have gotten it. It simply means she got something she might not have gotten if she were not the State treasure. I don't know the terms of the loans that were the basis of this prosecution, but I do know that we did send out such a memorandum in November 1976 and I also know one of the reactions was a call from an office on the Hill wanting to know why we were harassing the State treasurer of Alabama.

The CHAIRMAN. You had a pretty good answer I would think. Many of those loans are now classified. Interest hasn't been paid on them.

Mr. LEMAISTRE. Interest has been paid on a number of them. Some of them are perfectly good performing loans I'm told. I don't know what the details are because I'm not familiar with the individual loans.

The CHAIRMAN. Can you tell us which office on the Hill made the call?

Mr. LEMAISTRE. Sir?

The CHAIRMAN. What office on the Hill? What Senator?

Mr. LEMAISTRE. The office was on the House side. It was not an Alabama office.

The CHAIRMAN. It was not Alabama. Who was it?

Mr. LEMAISTRE. Beg pardon?

The CHAIRMAN. Who was it?

Mr. LEMAISTRE. Well, it was a person in an office of a Pennsylvania Congressman.

The CHAIRMAN. What Pennsylvania Congressman?

Mr. LEMAISTRE. William Moorhead, but he did not make the call. It just came from his office.

The CHAIRMAN. It came from his office. Why didn't the FDIC move more vigorously as soon as it picked up indications of improprieties? Why didn't you open up an investigation after the newspaper reports—I mean a substantial investigation?

Mr. LEMAISTRE. Why didn't we open an investigation?

The CHAIRMAN. Yes, sir.

Mr. LEMAISTRE. I'm not aware that there was a basis on which to open an investigation. I would say that the examiners in examining those banks were interested in the safety and soundness of the institution and as a concomitant part of that examination they looked for preferential treatment of any individual who might influence the State deposits. In this particular case they were alerted to look for this. What they found were some loans which subsequently have been classified. Some loans at that time were collateralized.

The CHAIRMAN. What kind of investigation did you open last Friday?

Mr. LEMAISTRE. I don't know. I don't know what investigation you have in mind.

The CHAIRMAN. When you find out will you let us know?

Mr. LEMAISTRE. I'll be glad to.

The CHAIRMAN. We were told by the Alabama people that you finally opened an investigation last Friday and they thought it should have been opened long before that.

Mr. LEMAISTRE. I have no information that we opened any kind of investigation after the prosecution was announced.

The CHAIRMAN. The reason I raise that point is I question whether the Allen case is an isolated instance. Since State and local governments have over $70 billion of their funds placed in commercial banks, other State and local government officials could well be in a position to misuse their control over the placement of those government funds to get preferential bank credit for themselves. It's been an area of abuse for a long, long time.

What steps have the Federal bank regulatory agencies taken to check whether State and local government officials have obtained preferential access to bank credit?

Mr. LEMAISTRE. What steps can they take to find out if that exists?

The CHAIRMAN. Yes, sir.

Mr. LEMAISTRE. By having the field examiner who examines the bank look at the loans in the bank which are made to individuals who hold those positions. In this particular case, a number of the loans that were involved were below the level of the samples that were being taken so they went back and picked those loans out. But the existence of these loans does not in any way endanger the banking system of Alabama.

The CHAIRMAN. Is that in the examiner's manual, to check all public deposits to see if there's preferential loans to the people who make deposits? Is this a specification in the examiner's manual that the examiner is required to check public deposits to see if there's a loan made to the person who's authorized such as Mrs. Allen or her family?

Mr. LEMAISTRE. Mr. Chairman, we do not, as I recall it, have a specific reference in the manual to checking all public deposits to see if there are preferential bank loans to the persons who control such deposits. However, several portions in the manual should alert the examiners in general terms to such risks along with other possible abusive insider transactions. I shall be glad to supply a copy of these portions to the committee. In addition, since the special survey that you requested was made last fall, we have sent out a special instruction that the examiner shall be aware of the possibility of such abuse. Again, let me point out that——

EXCERPTS FROM SECTION H—LOANS—IN FDIC MANUAL OF EXAMINATION POLICIES

II. BASIC SOURCES IN CAUSES OF LOAN PROBLEMS

A. Poor selection of risks

5. Loans made because of other benefits, such as the control of large deposit balances and not based upon sound worth or collateral.

10. An abnormal amount of loans involving out-of-territory borrowers (excluding large banks properly staffed to handle such loans).

VI. LOAN APPRAISAL PROCESS

9. *Verification of Loan Proceeds.*—Verification of loan proceeds is one of the most valuable and effective loan examining techniques available to the Examiner and is often one of the most ignored. This verification process is basically simple and can disclose fraudulent or fictitious notes, misapplication of funds, loans made for the benefit of or accommodation of parties other than the borrower of record or utilization of loans for purposes other than those reflected in the bank's files. The Examiner should verify the disbursement of a selected group of large or unusual loans, particularly those subject to classification or criticism and those granted under circumstances which appear illogical or incongruous . . .

The scope and depth involved in the use of this loan examination technique will vary and will be dictated by the apparent need therefor, as determined by the Examiner-in-charge. Verification of loan proceeds should be quite extensive in borderline or problem bank situations, in those cases where there is reason to question the validity or integrity of the information obtained from the bank's files or from discussions with loan officers, or if there is any evidence of self-dealing. Large "out-of-territory" loans are particularly appropriate subjects for close scrutiny along these lines.

The CHAIRMAN, Why not put it in the examiner's manual so it's done as a regular practice?

Mr. LEMAISTRE. Well, I have no objection to putting it in the examiner's manual, but I believe it is covered already in general terms. If the examiner does it, I don't care where he gets the information.

The CHAIRMAN. Do Federal bank examiners check as a matter of regular practice to determine when public deposits are made loans are made to the persons responsible or to their interests?

Mr. LEMAISTRE. Yes, sir. It's not at all uncommon to make such a report. As a matter of fact, in Oklahoma a number of years ago we reported some that looked like abuses to the Justice Department. The prosecution was carried out and the man was acquitted. So it's not always——

The CHAIRMAN. Well, I commend you on making the report and whether they were acquitted or not; I think you acted properly under these circumstances.

Mr. LEMAISTRE. I think it's our duty to report what appears to be a violation of the law to the Justice Department and we try to do that. We have written hundreds of letters.

The CHAIRMAN. What would you think of a policy to simply flatly prohibit loans to people who are in this position or their immediate interests? I realize that loans from the particular institution where the deposits are made—it doesn't mean they can't get loans any other place, but if, for example, they place loans with a particular bank, then that bank wouldn't be able to make a loan to them. Why wouldn't that be a good policy?

Mr. LEMAISTRE. I hold no brief with the practices that seem to have been carried out in Alabama, but I'm just wondering if these particular persons were involved in some business enterprise and wanted to borrow money where could they go? Every bank in Alabama has State deposits and if they are not to be allowed to borrow money from a bank that has a State deposit, then they are shut out of the banking system.

The CHAIRMAN. I'm not going to cry too much about that. After all, these people are supposed to be full-time public employees. There's no reason why they should be on the cuff with the people.

Mr. LEMAISTRE. I'm not going to cry about it either because I don't think it's a great problem frankly. I think this is an aberration that's appeared in my memory twice, once in Oklahoma and once here.

The CHAIRMAN. Well, it's been exposed twice. You're very optimistic.

Mr. Heimann, do you have any observations on this or do you have a similar response?

Mr. HEIMANN. Well, I would say, to start with, Mr. Chairman, that the special survey has certainly brought people's attention and raised their level of consciousness, to the possible problem of loans to office holders at a preferential rate. I think that was one of the services done by the survey. If this were an area that was not too carefully looked at in the past—and I have no reason to believe that's correct—I think it's quite fair to say it is receiving that attention today in the various regulatory agencies.

It's certainly not a proper practice. We consider it an abusive practice, and the examiners are well aware of that fact.

The CHAIRMAN. Let me ask you about your general position which as I understand it is the banking system is in pretty good shape. It has recovered as the economy has recovered. This chart doesn't suggest that quite that clearly. It suggests that problem bank assets are about the same as they were before the recovery and haven't improved very much. The number of problem banks improved slightly in 1976 but it's been about the same through 1977. So that your assessment seems to be, if anything, a little optimistic based on these facts, more optimistic than the facts seem to warrant.

Mr. HEIMANN. Well, those are the FDIC numbers.

The CHAIRMAN. We're talking about the whole banking system. This is for all the banks in the country. Are their numbers inaccurate?

Mr. HEIMANN. No. I think ours are even worse.

The CHAIRMAN. Well, then, how do you justify your conclusion?

Mr. HEIMANN. Well, I'd like to address that if I may.

There are three different levels I think to the discussion of these statistics in terms of assets and numbers of institutions. No. 1, once a bank is on the most serious or critical list, it takes time for it to improve itself due to the nature, the depth, of the problem that may have occurred to put it on that problem list. It does take a long time to work out a bad loan.

Second, I think it's fair to say that once a bank is on the most serious or critical list, the supervisors, and I think rightfully so, want to make perfectly sure that, if a bank gets off that list, its improvement justify its upgrading from the worst category to the second or third category. So there is a tendency on the part of our agency, and I think properly so, to delay the removal from the list until we are perfectly convinced that removal is justified. Even though the numbers may not look good, we don't want to be precipitous in terms of just removing it so that the numbers look better.

Third, the Comptroller's Office views special supervision in much the same way that the health industry is beginning to view health maintenance operations. Regulators have been criticized by this Congress for not spotting problems early enough and then taking remedial action to attempt to solve those problems if indeed they are resolvable. Since the development of the national bank surveillance system, if we spot an area that causes us concern—not that it is a terminal or even a critical or even a serious problem—we want that bank under special surveillance. Therefore, the number of institutions under special surveillance in the Comptroller's Office has increased during this period.

The CHAIRMAN. You changed the category then?

Mr. HEIMANN. Rather than changing the category we have brought a depth of evaluation as to those banks which we should be watching closely.

The CHAIRMAN. These figures are not comparable. I should say, your figures are not comparable.

Mr. HEIMANN. Our figures, as you note, are broader because we have the NBSS system. Our categorizations are somewhat different, although this is being resolved.

The CHAIRMAN. So the fact that there are more problem banks in 1977 than in 1976, sharply more for national banks I'm not talking about this chart; I'm talking about another chart I have here—indicates that you have included as problem banks, banks which previously might not have been included.

Mr. HEIMANN. That is correct. To put it another way, I would not categorize them all as problem banks. I would say they are banks under special surveillance for one of a number of reasons.

The CHAIRMAN. Special supervisory attention?

Mr. HEIMANN. Yes. It's the name that we use.

The CHAIRMAN. You say on page 5, "We believe there may be a substantial shortfall in bank capital in the early 1980's if asset growth patterns are maintained at historic levels."

In view of the fact that many of us think there is a substantial shortfall in capital, this would seem to be quite a warning because if the shortfall is much greater than it is now it seems to me we're in some serious difficulties.

Would you spell out what the effect of such a shortfall, if it develops—and you indicate that it may or may not—if it does develop—would be for the economy?

Mr. HEIMANN. Certainly. I would like to just comment on the concept of shortfalls. Because of our concern, we have cranked into our national bank surveillance system a 2-year capital projection for each individual institution. We make the projections based on a 5-year and 1-year trend of growth rates, present it to the bank, and say, "If you're growing at this rate, how do you expect to finance that growth?" In other words, our concern is more than an academic one. We are doing it on a bank-by-bank basis, asking the individual institution to tell us their plans for raising capital. Their plans and ability for raising capital, however, may not necessarily jibe because they depend on external factors.

It seems to me that the end result of a shortfall in capital—assuming nothing changes, the market appetite for equity shares in banks and bank holding companies does not improve, and the rate of increase in retained earnings continues at the present rate—the end result is one of two scenarios.

One is that the capital structure of the banking industry becomes more leveraged and therefore the cushion, or the protection of capital and surplus, becomes less and therefore less able to withstand an unforeseen shock. This is clearly undesirable but, nevertheless, one scenario.

The second scenario—and again I'm assuming no ability to raise capital—is that the commercial banking industry will, out of prudence and the need for a safe and sound system, have to cut back on its activities in supplying the capital needs of the nation which stretch from the consumer through corporate business, large and small.

The CHAIRMAN. Then what follows from that is there will be less capital; the supply would be less, given the present demand or the projected increase in demand; interest rates would just be higher; the cost would be greater and the effect would be what it usually is when interest rates are high or rising—perverse on the economy. It would slow down growth.

Mr. HEIMANN. Yes.

The CHAIRMAN. Many businesses, particularly small businesses, marginal businesses, wouldn't be able to get the capital they need.

Mr. HEIMANN. Small businesses, housing, the residual sectors which are normally affected in periods like this. Our concentration has been on techniques and methodology by which bank capital can be increased.

For example, for many years now, the Comptroller's Office has permitted subordinated debentures to be counted as part of capital ratio. We are restudying that entire area of activity in terms of the quality of those debentures—such issues as maturity, what portions should be counted in equity capital, and the like.

Second there are now some special problems national banks face in connection with increasing their capital. One area which involves a perfectly legitimate financial transaction is the issuance of preferred shares. As you know, under the National Bank Act, a national bank is forbidden to issue preferred stock with cumulative dividends in excess of 6 percent per annum. Now clearly, this should be changed to permit banks another capital-raising technique which has in this case been closed off to them by an antiquated statute.

The CHAIRMAN. I think that makes sense. And you do mention a number of steps to cure the capital shortfall, but you include appearing to favor elimination of the differential between commercial banks and thrifts. I find it difficult to see how that will cure the capital problem without sending home mortgage rates through the roof. It would seem to me you would really get a disintermediation out of the thrifts if you do that, out of housing availability.

Isn't the best solution to require banks to go to the capital market directly?

Mr. HEIMANN. The banks can only raise capital effectively by going to the capital market directly. I agree with that. But, Senator, if I may, I'd like to comment on the in-between part of your comment.

Our financial institutions were developed over a very long period of time with a high degree of specialization to meet certain needs. This was a plan—perhaps it happened, rather than being planned—but nevertheless, we created specialized institutions that serviced specialized needs. It was a system that worked extraordinarily well for a long period of time. The thrift industry serviced one function and the commercial banks had a different function. More recently, the credit unions themselves have entered into this area of activity, providing yet another set of services.

But since the credit crunch of 1965–66, or you may take it back to 1959—but mainly 1965 to 1966—dramatic changes have taken place in the deposit-taking institutions of the Nation. I use the word deposit-taking because a commercial bank is a deposit-taker and a thrift institution is a deposit-taker and so is a credit union. To put it another way, we have had increasing rates of inflation and perhaps almost more important, or as a result of increasing rates of inflation, we have had rapidly changing rates of interest available through money market instruments as well as through the depository institutions themselves.

This development occurred at more or less the same time when the Nation, the Congress—and properly so—spent vast amounts educating our citizens. One of the things that our citizens learned in this process of increased education was a high degree of understanding as to what their own rights were and what was available to them.

They understood that you could go shopping for a rate of interest, if you will, without losing protection and do better for yourself and for your family by understanding the various instruments that were available to you for investment of your deposits.

What's happened is that historical competition—thrifts competing with thrifts and commercial banks competing with commercial banks—even our regulatory structure was designed to meet that then and very real competition—no longer exists for the most part in the marketplace. The competition today is bank to bank to thrift institution to credit union.

The CHAIRMAN. You're suggesting a real consolidation of the bank regulatory agencies in which you have a financial regulation overall so you have the same regulator regulating the commercial banks, the savings and loans, the credit unions, the mutuals and so forth, so you have the whole show under one tent, and then you would have uniformity and you would have equity and you would have a more rational system, would you not? Is that what you're suggesting?

Mr. HEIMANN. Mr. Chairman, I'm suggesting that the real——

The CHAIRMAN. Supposing we put that under the Comptroller.

Mr. HEIMANN. I don't think that would be a good idea, Mr. Chairman. Unlike the Chairman of the Federal Reserve who said he thought it was all fine if it was in the orange box—and I think that was the box at the Federal Reserve—I don't think that this whole question that we are raising—and it concerns me greatly—has faced the realistic problem of the marketplace, of what's really happened. The solutions shouldn't be designed to fit an existing structure necessarily.

What I'm really suggesting, sir, is that all of these factors have to be taken into consideration when we face the problems of the commercial banks. The commercial banks' inability to compete effectively in certain markets has the end result of reducing their profit margin, their retained earnings, and their ability to raise capital in the marketplace. It doesn't work in our financial society to separate them out and attempt to address the problems as if those other institutions were not there competing effectively. I do think it's all part of an overall view of the problem which can only be solved on an overall basis.

The CHAIRMAN. Well, I think you have made my point very well.

Chairman LeMaistre, what followup have regulators done? Have any violations or potential violations been uncovered by the special survey you made for us on bank stock loans, insider loans, overdrafts? You made that at our request and it was quite an elaborate and expensive survey. Have you had a chance to follow up on that, you and the other regulators?

Mr. LEMAISTRE. We have sent to the regional offices the information which was developed in that survey as to where there were evidences of possible abuse; and we have asked the examiners on their next examination to check those matters out and report on them. I haven't actually seen any report from any examination, yet. In our letter to the Regional Directors, we identified nine possible abusive lending practices. To provide a timely followup of the "worst cases," we asked that by June 1, 1978, examiners conduct inquiries of those banks identified as having five of the nine. We expect to have a summary of these inquiries by July 1. I shall be glad to supply the committee a copy of the summary together with our letter and enclosures at that time.

The CHAIRMAN. When will you have a report available?

Mr. LEMAISTRE. It will be when the next examination of the particular bank occurs, for most banks. Reports on the "worst cases" should start coming in within the next couple of weeks.

The CHAIRMAN. When would you expect to have a substantial number of them available?

Mr. LEMAISTRE. We wouldn't send out a special examiner for that, but it would be during this year.

The CHAIRMAN. Will you keep us posted, say, 3 or 4 months from now?

Mr. LEMAISTRE. Particularly if we find any abuses.

The CHAIRMAN. I'm sure there will be some abuses and you might keep us posted on what's being done. Would you do that?

Mr. LEMAISTRE. Yes, sir.

The CHAIRMAN. Also, Chairman LeMaistre, on page 8 of your statement you said the capital ratio for all banks remain below the prerecession level of 1972 with a notable exception being those banks under $100 million in assets which showed capital ratios higher than 72.

Now I agree with your statement on page 9 that the capital decline may reflect the deterioration in the soundness of the banking system, particularly among the largest banks. There's some explanations for this difference. One is the biggest banks have expanded fastest, especially overseas and, two, net interest rate margins for the bigger banks are much smaller than the $100 million banks, indicating they may be more competitive.

What's your comment on that, the fact of this difference?

Mr. LEMAISTRE. I think there's probably only one explanation for it, that the bigger banks are involved in a field of activity in which the return is narrower. It is less. They don't have relatively as much net profit to turn into capital as smaller banks have. Neither one of them is yet able to add enough capital from that source, but I think the banks—particularly those which are not reflected over there, the ones between $100 and $500 million, have a better chance of doing that than the great big bank. The small one probably will take care of itself better.

Mr. HEIMANN. May I answer that, because I think it's a terribly important point?

The CHAIRMAN. Yes.

Mr. HEIMANN. A smaller institution, we generally call them community banks, tend to be in many instances in less competitive markets than the large multinationals. In a unit banking State where there are no holding companies, as the State of Oklahoma, profit margins of the commercial banks are just twice the profit margins of the banks in the State of California. The only identifiable factor that seems clear, since there are good bankers in both States who know their business, is the function of competition in those various areas.

The CHAIRMAN. Mr. Heimann, on page 13 you indicate that your office policy generally requires that formal administrative action be taken against the lowest rated problem banks under the Financial Institutions Supervisory Act.

Now that appears to be an excellent policy. Have the other agencies adopted a uniform enforcement policy to go along with their uniform rating system? Do you know?

Mr. HEIMANN. I'm not sure. I don't know the answer to that question, Mr. Chairman.

Mr. LEMAISTRE. I don't think we have. We have just started the implementation of this uniform method of rating the banks and as it works out, going down the scale, I assume something like that will come up.

The CHAIRMAN. Does the FDIC also take formal administrative action against the lowest rated banks as a matter of requirement?

Mr. LEMAISTRE. I don't think we do as a matter of course.

The CHAIRMAN. Why wouldn't that be a good policy?

Mr. LEMAISTRE. It depends on what was the cause for it being ranked low. If it's something that couldn't be corrected by an administrative action, there would be no need to bring it; but we would certainly use our supervisory powers in that respect and are increasing the use of it.

The CHAIRMAN. Well, you say there might be a situation in which you could correct the difficulty without a formal administrative action?

Mr. LEMAISTRE. I think there could be.

The CHAIRMAN. Such as? We're talking about the lowest rated problem banks.

Mr. LEMAISTRE. Well, if a bank were totally deficient in capital for the reason of a sudden unexplained, or one you could explain for that matter—but unexpected loss, perhaps it could be corrected simply by taking advantage of their next application for a branch—so, OK, you get the branch if you put in $5 million in capital—and that works sometimes.

The CHAIRMAN. What do you think of that, Mr. Heimann?

Mr. HEIMANN. Well, we do that.

The CHAIRMAN. That's what you do with a formal administrative action?

Mr. HEIMANN. No. Our process is somewhat different. We have established as a matter of course that, in our lowest rated banks, there should be an action which is formalized. That could be the cease and desist, though not necessarily. It could be a formal agreement with the board or it could be a memo of understanding between the Office and the board of directors as to certain actions that we would take.

We have felt as a matter of basic policy that there should be some formalized action for any of these institutions that come into these categories, but there are different formalized actions depending on the circumstances.

Second, the chairman has just used an example of another course of action. Last year, 1977, the Comptroller's Office turned down or held up 68 branch applications from various banks because of capital requirements. In other words, the branches were not granted or would only be granted pursuant to the condition that institution raise more capital. It's another tool the regulator can use to help get the institution to do what the regulator thinks it ought to do.

The CHAIRMAN. Would a policy of making a cease and desist order public enhance its enforceability and usefulness?

Mr. HEIMANN. Well, I think there's some disagreement amongst the regulators on that. I'll tell you what my own personal feeling is. I happen to be a full disclosure addict, as long as we're willing to accept the end result of full disclosure.

My problem, Mr. Chairman, is that making a cease and desist order public, depending on the cease and desist order, clearly indicates there are problems in the institution of some magnitude or formal or meaningful enforcement action would not have been taken. It might lead people who deal with that institution to say, "Well, here's a cease and desist order. There's plenty of competition around. It's not very smart, not very prudent, of me to keep my money in that bank, whatever the reasons for the order are." Obviously, nobody would ever receive any credit for having kept money in a bank under a cease and desist order. He could be severely criticized for having done that if the bank then folds and that individual would suffer some loss. If he's in a fiduciary capacity, Lord only knows how he would justify having kept the funds in that institution in terms of the beneficiaries' loss. I think that if we get through the thicket in this country of understanding that we don't have bank failure——

The CHAIRMAN. Let me just interrupt to say that I'm not sure the record shows that. The Bankers Trust, for example, disclosed a cease-and-desist order from the SEC and it didn't have any effect on their deposits—didn't seem to have any effect.

Mr. HEIMANN. Well, with all due respect to the SEC, that's looked at as a securities violation. A cease-and-desist order from the FDIC or the Comptroller's Office usually speaks to safety and soundness.

The CHAIRMAN. It was a Federal Reserve cease and desist order I understand. The SEC required it to be disclosed.

Mr. HEIMANN. That must have been after the fact. That had to do with securities. I don't know the exact case—I'm sorry I don't, Mr. Chairman. However, if it had to do with a bank in upper New York State, I do think I recall the circumstances if that's the one.

The CHAIRMAN. Let me just interrupt. Is Mr. Ryan of the Federal Reserve here?

Mr. RYAN. Yes.

The CHAIRMAN. Is this what happened in this case with Bankers Trust on the basis of your knowledge?

Mr. RYAN. I don't believe it was Bankers Trust, Mr. Chairman. I think it was Marine Midland and it involved a violation of the law and the disclosure was made by Marine Midland under their interpretation of the securities laws. It was not made by the Federal Reserve.

The CHAIRMAN. I see. But it was a violation of the securities law?

Mr. RYAN. It was a violation of banking law.

The CHAIRMAN. Of the banking law?

Mr. RYAN. Yes, sir.

Mr. HEIMANN. May I ask what year it was?

Mr. RYAN. Two years ago. I believe it was 1976.

Mr. HEIMANN. In a way, that may prove a point.

The CHAIRMAN. Did it have an adverse effect in any way on Marine Midland?

Mr. HEIMANN. I was superintendent of banks in the State of New York in 1975 and 1976. As you know, at that time it was much rumored in the press that Marine Midland was a terribly troubled institution. During that period the CD rates of Marine Midland were in excess of other CD rates in the city of the major banks of comparable institutions.

The problem was solved at Marine when they merged all of the banks, the upper and down State banks, which clearly and dramatically improved the capital position of the entire holding company. The impression that Marine was a terribly troubled institution no longer applies. It was resolved by the merger of all the institutions, if in fact it did apply.

The CHAIRMAN. Of course, as Adali Stevenson, Sr., used to say, there's no gain without pain, and one of the pains of the disclosure of the cease and desist is it could have an adverse effect on the bank, but that's precisely the kind of thing that would make the bank behave in a way in which they wouldn't have to suffer a cease and desist.

Mr. HEIMANN. Mr. Chairman, I would agree if we became more tolerant then of banks which were dissolved without pain or penalty to the innocent, the customer of the bank, the business person who deals with the bank. Clearly that kind of action would lead logically to more banking houses disappearing (we call them failures, but perhaps just dissolving them might be correct) or merging them out. We can't have a procompetitive financial society, including the banking industry, and full public disclosure of transgression without having more institutions being dissolved because of the problems that they have made for themselves or their inability, their failure to meet the competitive standards of their contemporaries in the society.

The CHAIRMAN. Mr. Heimann, there's still a strong, upward trend in the future? Will the banks stop moving ahead, expanding their that affects the difficulty with REITs. What do you expect to happen in the future? Will the banks top moving ahead, expanding their REIT operations? Will they be readily able to dispose of the real estate they have withinthe 5 years applicable to the national banks? banks?

Mr. HEIMANN. It's quite a vexing problem. It depends on the quality of the real estate. Of course, we are starting from the basis that if the REIT got in trouble, the quality of the assets in that REIT could not have been first rate. Therefore, disposing of those assets within a relatively short period of time, 5 years, might prove to be very difficult for some of those institutions without taking a substantial loss.

Now the reality is that this occurs in certain sections of the country and applies to certain kinds of real estate. It does not apply across the board, but it does particularly in the area where the original judgments were third rate in terms of the quality of the investment.

The CHAIRMAN. Is the 5-year period being strictly enforced by your office?

Mr. HEIMANN. It has been generally strictly enforced by the Office, but it is causing some enormous problems to individual institutions which we don't think are fair. You might say, well, they made the investment in the first place and they shouldn't have made it. But given some modestly more time for the market in those areas to improve, losses that they would have to take on the particular piece of property may be reduced.

We feel, however—and you know in our housekeeping bill——

The CHAIRMAN. You made the recommendation to extend it to 10 years. That's very controversial. That's why I asked the question. I wanted to make a record on it.

Mr. HEIMANN. We made the recommendation that it be extended up to 10 years at the discretion of the Comptroller's Office since we would then have to be convinced by the bank that they really had tried to sell it and that the market was not receptive to that sale—a good faith effort in disposing of it at a realistic value. There are others who are seeking to amend that to make it an arbitrary 10 years. Our proposal is a bit more conservative.

The CHAIRMAN. Mr. Heimann, Governor Coldwell has noted with concern that some U.S. banks have a rather sizable exposure in individual countries relative to their capital in reserve. Chairman LeMaistre cited the importance of country exposure limits for banks and diversifying exposure across countries. I assume you agree that it is important for banks to avoid excessive loan concentrations in single countries. Why does your proposed ruling on foreign public sector borrowing not limit such concentrations? Your ruling would set no limit on overall country exposure. A national bank could have 200 percent of its capital exposed in a foreign country as long as there were 20 different borrowers. How would you justify that?

Mr. HEIMANN. Mr. Chairman, I think I have to answer that question in two pieces. It starts out with tiny steps for tiny tots. We have a law, 12 U.S.C. 84, which was written during the time of the then Secretary Chase in 1863. I suspect it was a far cry from his imagination that a single person under the law could ever be a sovereign nation. We had been net importers of capital and continued to be so for many years thereafter.

The Comptroller's Office, in an attempt to adjust to realities of the marketplace, has for a period of years been working with a concept of means and purpose in terms of what the 10 percent should apply to, assuming there is no basic statutory change in the National Bank Act.

I felt when I came to office that this had to be sorted out, first, simply because it was not being applied equally or fairly throughout the regions of the country. Therefore, it impacted different banks differently, and borrowers did not understand the ground rules that applied under the national banking system. However, once having said that, I agree that the concept of concentration, leaving aside the peculiar quirks in the law with which we are dealing in this respect, is terribly important.

About 2 weeks ago I gave an address to the Bankers Association of Foreign Trade, and the thrust of those remarks—and I'd be delighted to submit them to you, Mr. Chairman—was that the overriding——

The CHAIRMAN. I hope you will.

Mr. HEIMANN. I shall, sir (see p. 355). The overriding concern for prudent bank lending is diversification of concentration. Assuming that each single borrower in any given area is creditworthy, what are the reasonable limits of concentration in order to protect an institution against the unknown facts that develop in the future, recognizing that regulators', bankers', and everybody else's crystal balls are rather cloudy?

The CHAIRMAN. How many banks have more than 100 percent of their capital exposed in individual foreign countries? Do you have any notion?

Mr. HEIMANN. No; I don't Mr. Chairman. I just don't know that.

The CHAIRMAN. Would you give us an estimate for the record? If 10 percent is a reasonable limit on exposure to a single borrower, wouldn't a limit to an individual country of, say, 50 percent of capital in reserve be reasonable?

[The information follows:]

As of June 30, 1977, there were eight U.S. commercial banks with total exposure in individual countries of more than 100 percent of their capital.

Mr. HEIMANN. We are examining this problem. Frankly, what I intend to do is, from studies that we have underway right now, to come out with parameters of what we consider to be reasonable or tolerable levels of concentration versus intolerable levels of concentration. We're doing that right now, but I have not come to any conclusion on that subject, Mr. Chairman.

The CHAIRMAN. One more question. You cited the importance of regular onsite examinations abroad of the foreign offices of U.S. banks. I agree that such examinations are very important. Some of the big banks are getting more and more of their operations in foreign countries. Unfortunately, not all countries permit U.S. authorities to examine U.S. bank offices abroad.

Will you provide for the record a complete list of countries where U.S. banks have offices but in which you are unable to conduct onsite examinations?

Mr. HEIMANN. Yes, we certainly shall, Mr. Chairman.

[The information follows:]

The following countries do not permit onsite examinations of offices of U.S. banks:

Bahamas.
Cayman Islands.
Lebanon.
Luxembourg.
Singapore.
Switzerland.

The CHAIRMAN. What is being done to obtain the U.S. examination of bank offices in these countries?

Mr. HEIMANN. Two things. First of all, we do not permit a national bank to open a branch in a country that does not permit our examiners to examine without an understanding from the bank itself that we will review the records of that branch in the home office. In other words, they have the records from their own branch, and we review them at the home office, not onsite, because we are not permitted by the sovereign law of that nation.

Second, Mr. Chairman, I think it's been apparent from my concern with the international area and exposure that this is of considerable importance to our office. As you are probably aware, the banking supervisors of the G-10 nations, plus Switzerland, have for years met and discussed these kinds of problems. The Comptroller's Office was never a member of that committee, the United States being represented by the Federal Reserve.

After discussing this with members of the Board of the Federal Reserve and the chairman of the committee itself, we have now become official members of what is called the Cooke committee. The reason that I'm concerned about participating is to learn more and deal closely with foreign bank supervisors to understand our mutual problems. This will help us to get through some of the thickets that you have been hinting at by your question, and which are very real. Our presence and participation in the Cooke committee will add another important dimension to our international activities in terms of reviewing and examining the quality of foreign activities of U.S. banks.

The CHAIRMAN. I do have one more question. I'm not sure that congratulations are in order on the adoption of a uniform interagency system for rating of the condition of banks because I think the lowest common denominator has prevailed again. The uniform rating system contains no benchmark for measuring capital adequacy. At the very least, a benchmark is a clear number to shoot for, whether it's 6 or 8 or 10 or whatever it is.

In its place, the uniform system compares a bank's ratio to its peer group banks. The peer group reference seems to me to be too subjective. Certainly, if all banks are undercapitalized and they seem to be far less than the 8-percent benchmark, if they are all undercapitalized, a particular bank could be considered adequately capitalized because it was no more undercapitalized than the other banks. That seems to me to be a good case of double think.

Mr. HEIMANN. The problem might be even worse than that, Mr. Chairman. Those numbers don't show the effect of the holding companies. I mention that simply because this problem of capital adequacy is one that I honestly can say that we are struggling with but haven't resolved. I can't speak for the other regulators, but it's a constant dialog of what is it, what should it be, how do you measure it, and I think——

The CHAIRMAN. You just threw out a little note there that piques my curiosity. You say this doesn't allow for the effect of the holding companies. Now, would that result in an even lower capital ratio and, if so, how?

Mr. HEIMANN. Well, the holding company, as you know, will borrow money in the marketplace. Let's assume it has debt capital, which has been the normal form in recent years—again, equity being difficult to raise for a bank or a bank holding company—then downstreams some portion of that borrowed debt to the bank as equity. As a hypothetical, "XYZ" holding company borrows $100 million in debt from the marketplace, 25-year debentures, let's say—I'm just making up the numbers—and it takes $50 million of that and places it as equity capital in the "XYZ" bank. Now, for the bank it is equity capital, but the bank is also 100 percent owned by the "XYZ" holding company.

So if you calculate or attempt to calculate the holding company's downstreaming of debt to equity in banks and take that out—in other words, say that's not really equity, (then you have to go through the terms of the debenture and you make an evaluative judgment) obviously, that would reduce some of the equity position of some of the national banks.

Obviously, we are sufficiently concerned to be going through all these kinds of calculations in an attempt to understand equity positions and what they mean. It also is a problem, as you know, of a somewhat bifurcated regulatory position with respect to holding companies and banks, be they State or national chartered. The holding companies are under the aegis and supervision of the Federal Reserve, not the FDIC, if the majority of assets belong to state nonmember banks, or the Comptroller if the majority of assets belong to national banks, and we, of course—both the chairman and I have testified with respect to that on numerous occasions.

The CHAIRMAN. You see, the problem, though, is that using the peer group system for uniform rating method, as I indicated—your response then is that you're not satisfied with that either and you would acknowledge that does give you a system which doesn't really give you a capital adequacy understanding for the particular bank?

Mr. HEIMANN. It is perhaps the best way to begin to get at it, better than what we seem to have had up until now.

The CHAIRMAN. Why wouldn't it be better to have a figure?

Mr. HEIMANN. Because I have never yet been able to find anybody who could design or divine that.

The CHAIRMAN. The Fed had one for years. What was wrong with that? So did the Comptroller, as I understand it.

Mr. HEIMANN. Well, during that period of time I'm not sure that all of the standards were met. Some of the things that happened to the banking industry in those 5 or 10 years happened regardless of whether there was a figure or not. The proof of the pudding is in what happened rather than whether or not somebody had a figure.

The CHAIRMAN. Is this another example of competition in laxity? If one of the regulators was tough about the figure, the constituency banks would opt out and go to one that was easier?

Mr. HEIMANN. Just the opposite, Mr. Chairman. It would seem to me the kind of thinking you heard today from Chairman LeMaistre and Chairman Miller, and hopefully from myself, was an indication that the regulators are really attempting, each in his own way——

The CHAIRMAN. Somehow, I don't get that same flavor.

Mr. HEIMANN [continuing]. To do a very good job of challenging the conventional wisdom. My problem is and always has been that what everybody knows, today's answer is always to yesterday's problem. A key to being a good supervisor, it would seem to me—and I have heard the chairman speak to this—is to be challenging tomorrow's problem or at least attempting to come to grips with it. That takes a somewhat different point of view.

The CHAIRMAN. Well, I think that's a good note to end on. You have identified tomorrow's problem as a serious capital shortfall that may be facing us. We don't seem to have the solutions in meeting it. We have a long way to go to improve our banking system, but I think this report on the state of the banking system has been very useful. Thank you very much.

The committee will stand adjourned.

[Whereupon, at 12:40 p.m., the hearing was adjourned.]

[Additional material received for the record follows in the appendix.]

APPENDIX

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U.S. COMMERCIAL BANKS: SELECTED DATA SERIES ILLUSTRATING THE FINANCIAL CONDITION OF THE INDUSTRY

Prepared for the Committee on Banking, Housing and Urban Affairs, United States Senate

by

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(in consultation with staff of the Committee)

May 23, 1978

U.S. COMMERCIAL BANKS: SELECTED DATA SERIES
ILLUSTRATING THE FINANCIAL CONDITION OF THE INDUSTRY

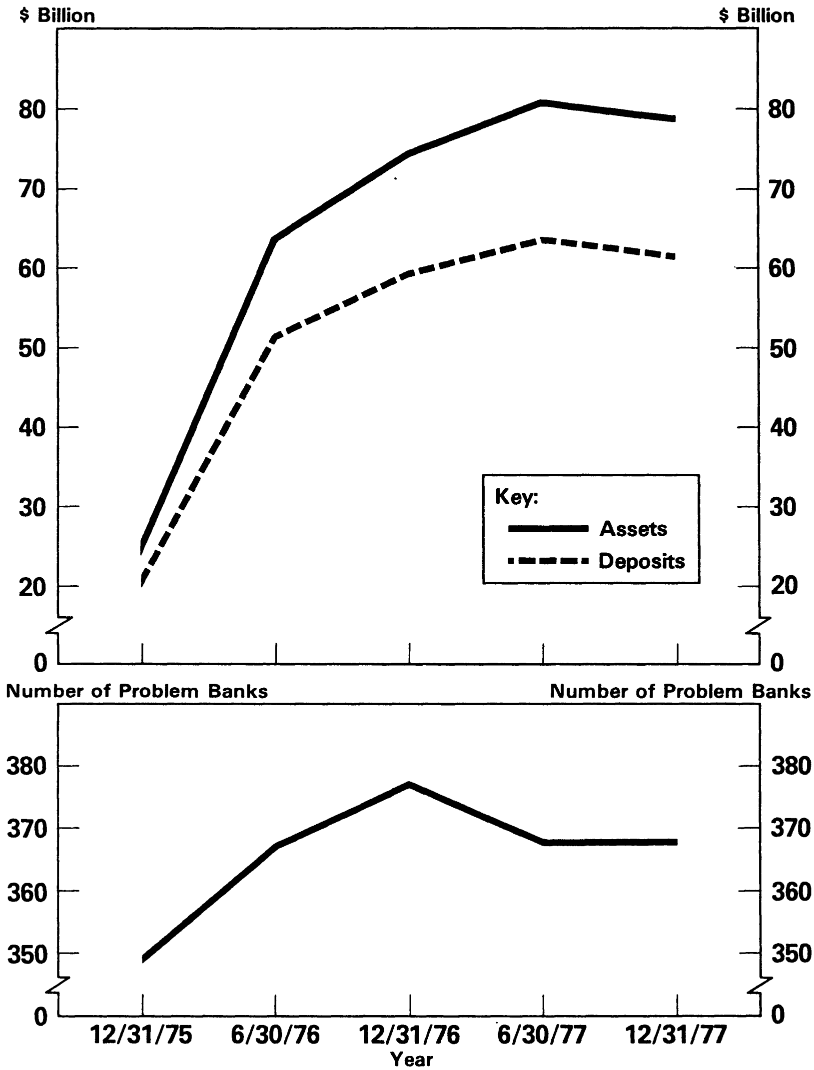
The series of graphs contained in this collected set depict recent trends in selected financial aspects of the commercial banking industry in the United States. Data used for constructing the graphs was obtained from special reports requested by the Senate Committee on Banking, Housing and Urban Affairs from the Board of Governors of the Federal Reserve System, the Comptroller of the Currency and the Federal Deposit Insurance Corporation. Each agency reported data for banks for which it has primary supervisory authority.

Where possible, the graphs contain information for a series of years. In a number of cases, data is presented for selected bank size groups. An effort has been made to use the same format in portraying data from each agency. To the extent that information supplied in the various agency reports has permitted, the same time period and frequency of observations has been used in portraying data series for national banks, State member banks and insured nonmember banks.

U.S. COMMERCIAL BANKS: SELECTED DATA SERIES ILLUSTRATING THE FINANCIAL CONDITION OF THE BANKING SYSTEM

CRS-1

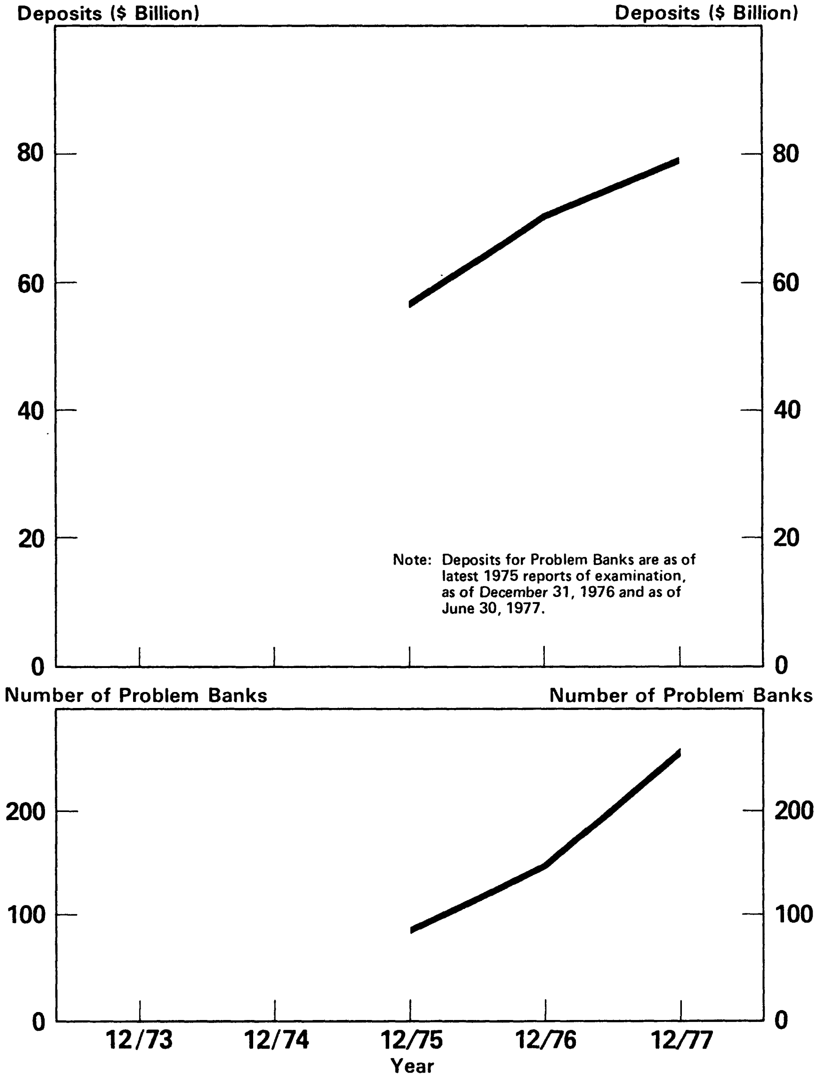
FDIC PROBLEM BANK SUMMARY, TOTAL ASSETS, TOTAL DEPOSITS AND NUMBER OF INSURED PROBLEM BANKS, 1975-1977



Data Source: Federal Deposit Insurance Corporation.

CRS-2

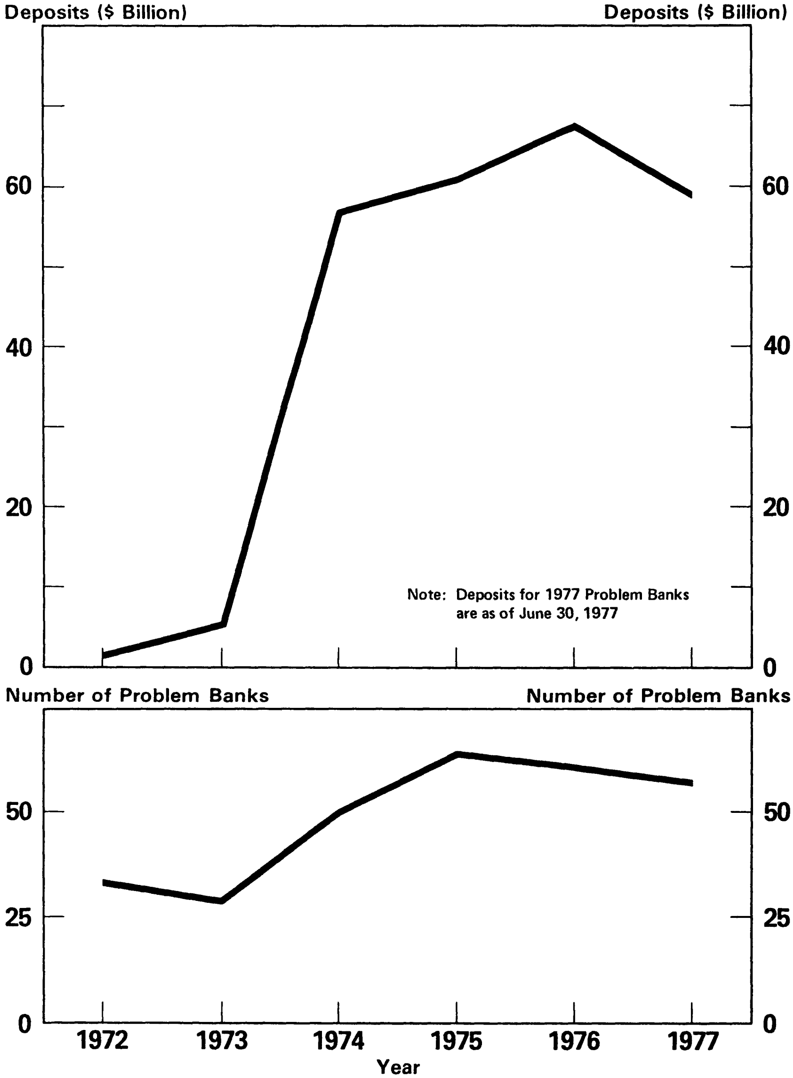
NATIONAL BANKS REQUIRING SPECIAL SUPERVISORY ATTENTION, NUMBER AND TOTAL DEPOSITS, 1975-1977



Data Source: Comptroller of the Currency.

CRS-3

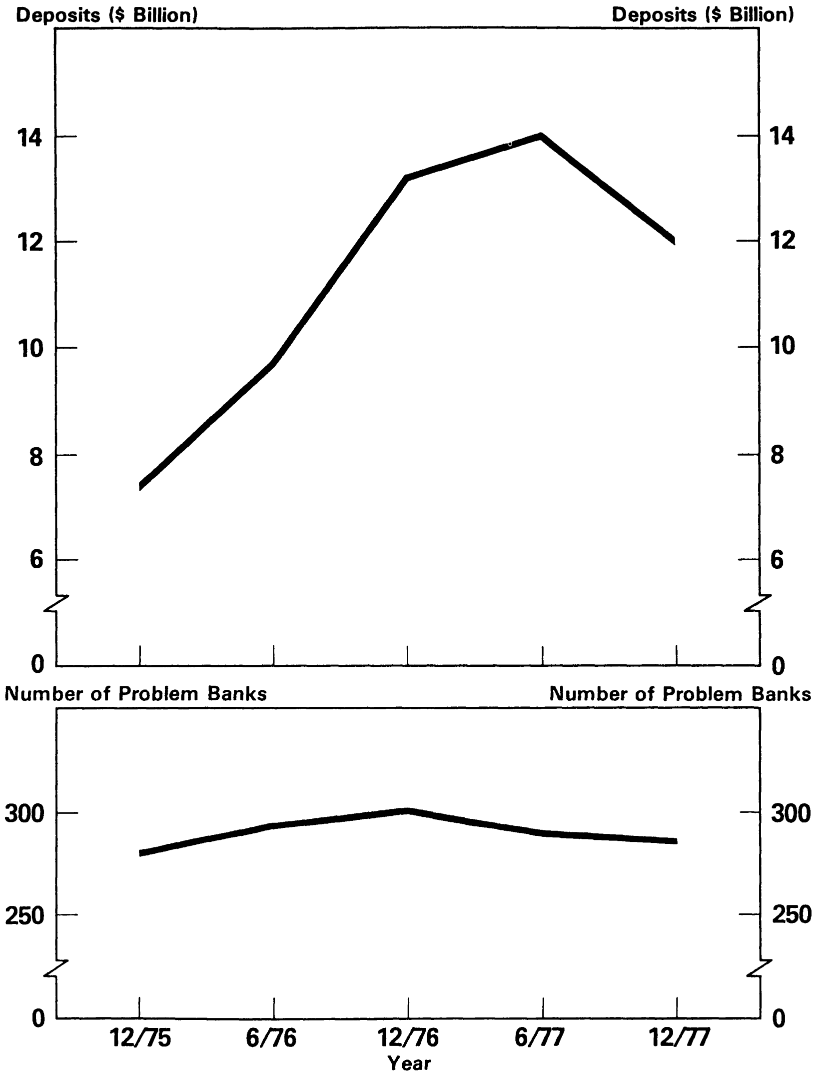
STATE MEMBER PROBLEM BANKS (CATEGORIES 3 AND 4), NUMBER AND TOTAL DEPOSITS, 1972-1977



Note: Problem bank data for 1977 are based on examination reports received as of February 1, 1978.
Data Source: Board of Governors of the Federal Reserve System.

CRS-4

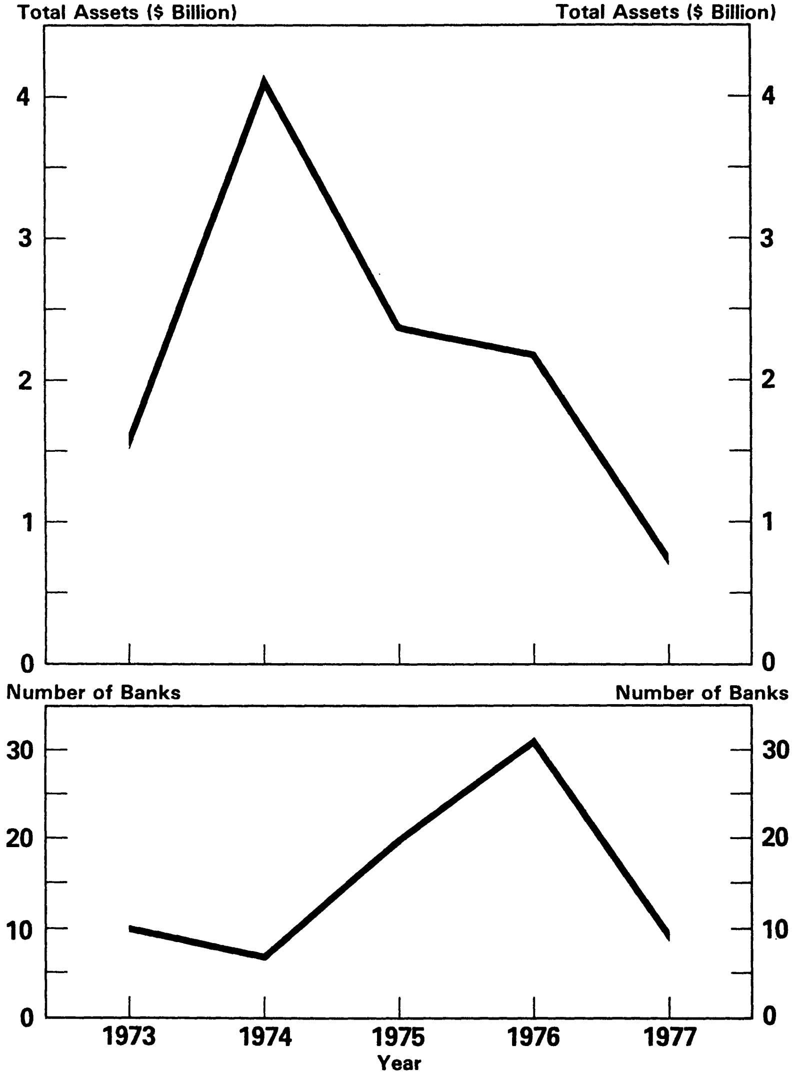
INSURED NONMEMBER PROBLEM BANKS, NUMBER AND TOTAL DEPOSITS, 1975-1977



Data Source: Federal Deposit Insurance Corporation.

CRS-5

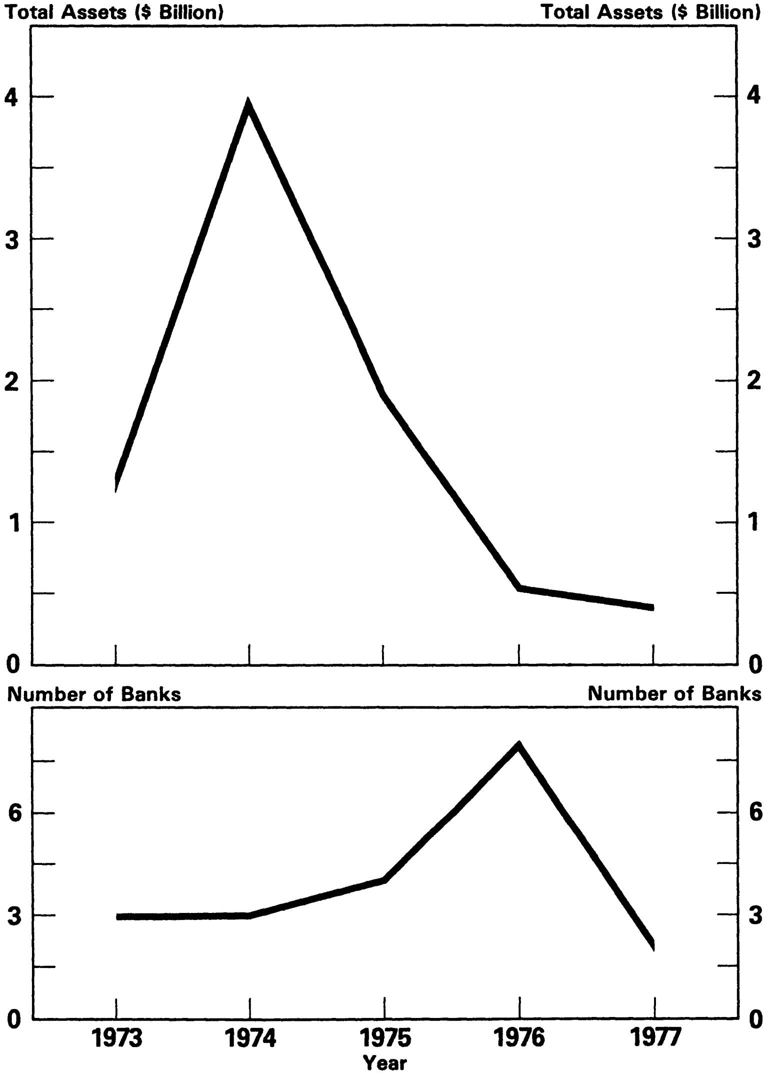
ALL INSURED BANKS FAILED OR ABSORBED TO AVERT FAILURE, NUMBER AND TOTAL ASSETS, 1973-1977



Data Source: Board of Governors of the Federal Reserve System
Comptroller of the Currency
Federal Deposit Insurance Corporation

CRS-6

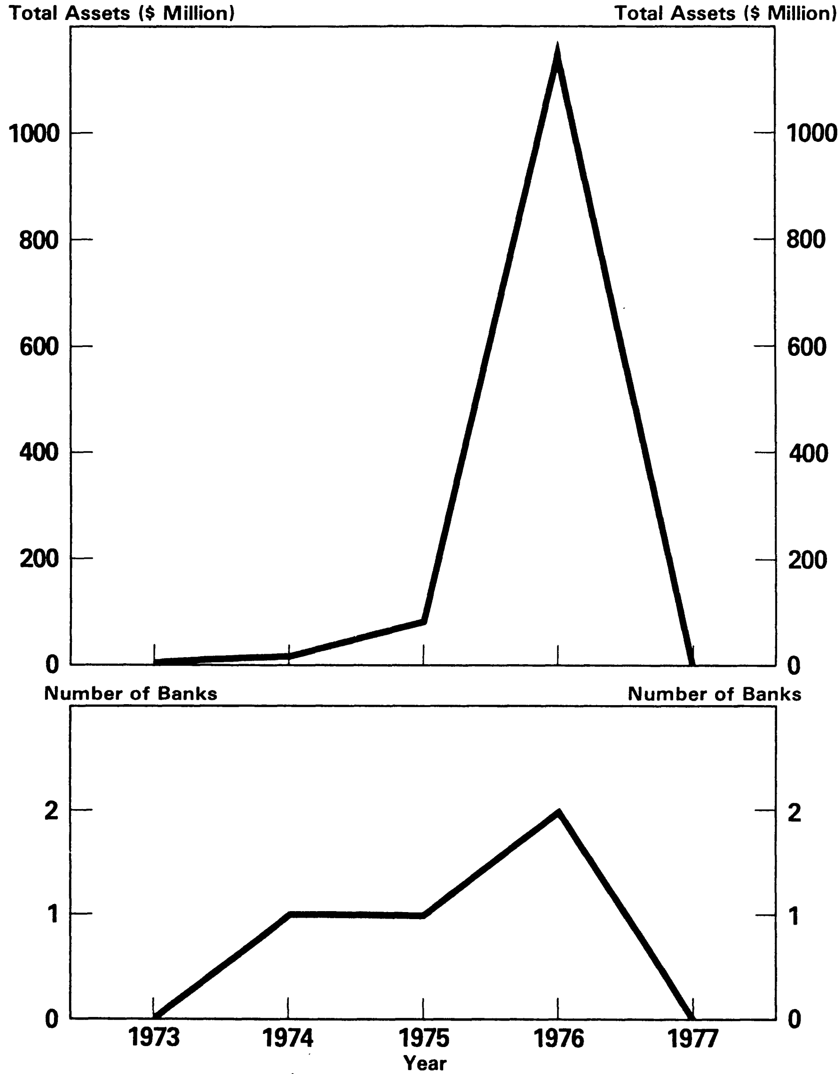
NATIONAL BANKS FAILED OR ABSORBED TO AVERT FAILURE, NUMBER AND TOTAL ASSETS, 1973-1977



Data Source: Comptroller of the Currency.

CRS-7

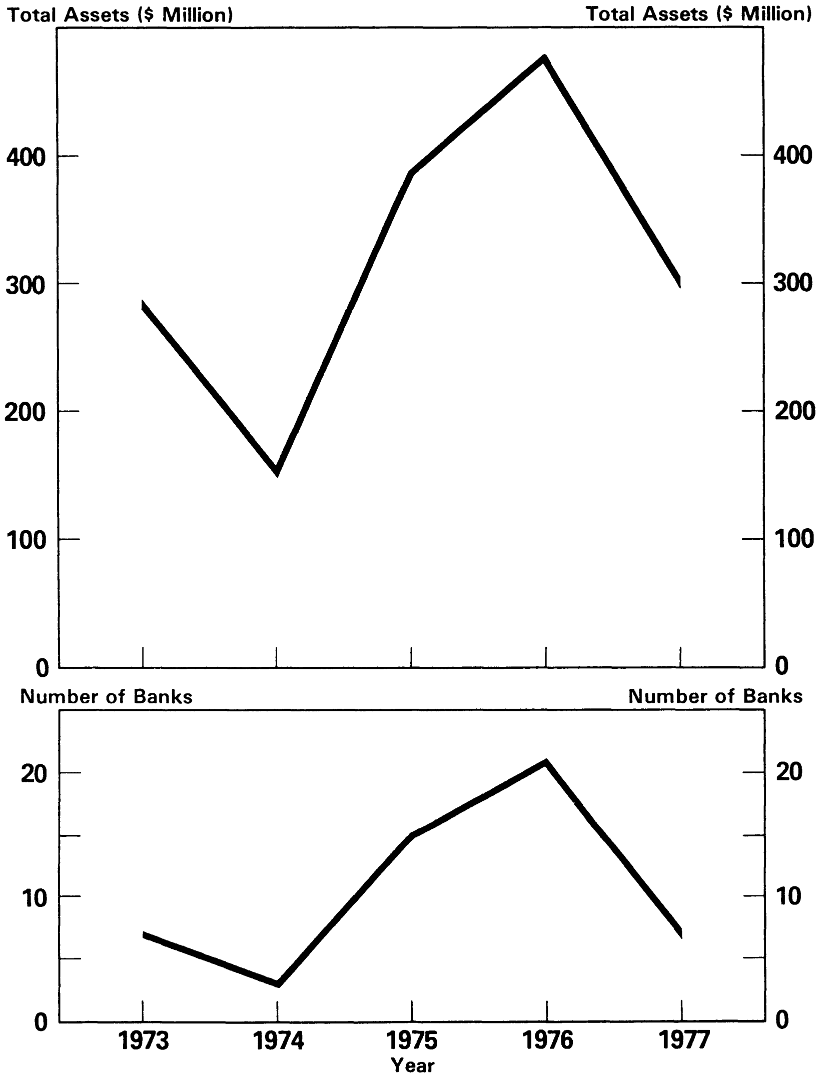
STATE MEMBER BANKS FAILED OR ABSORBED TO AVERT FAILURE, NUMBER AND TOTAL ASSETS, 1973-1977



Data Source: Board of Governors of The Federal Reserve System.

CRS-8

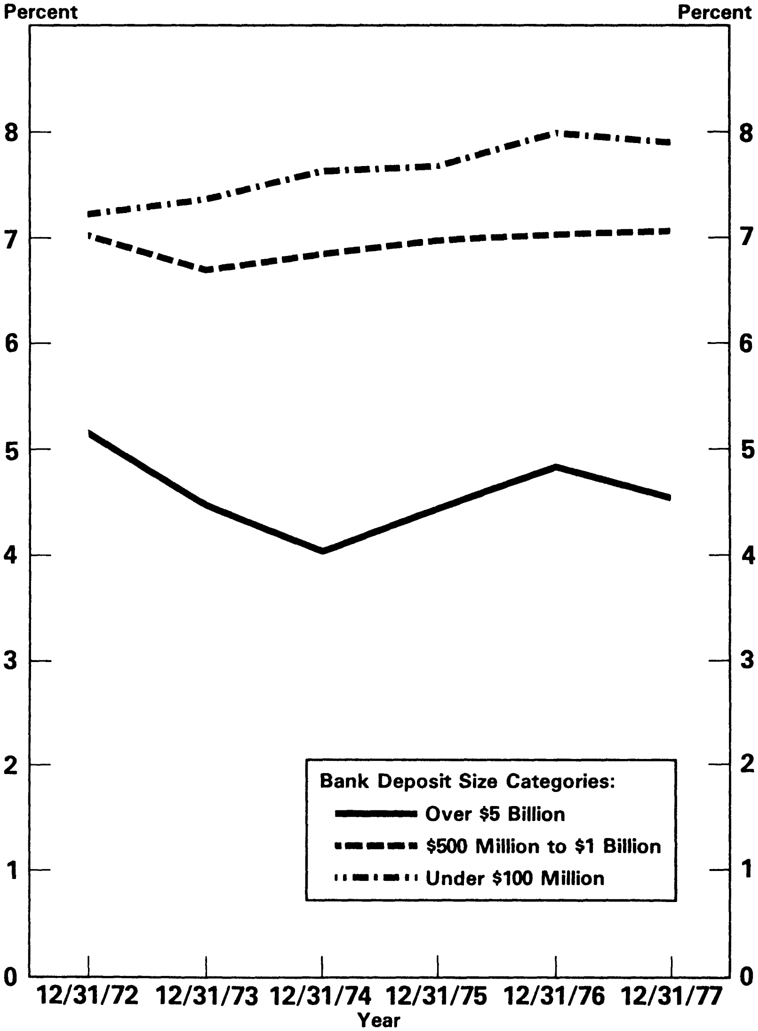
INSURED NONMEMBER BANKS FAILED OR ABSORBED TO AVERT FAILURE, NUMBER AND TOTAL ASSETS, 1973-1977



Data Source: Federal Deposit Insurance Corporation.

CRS-9

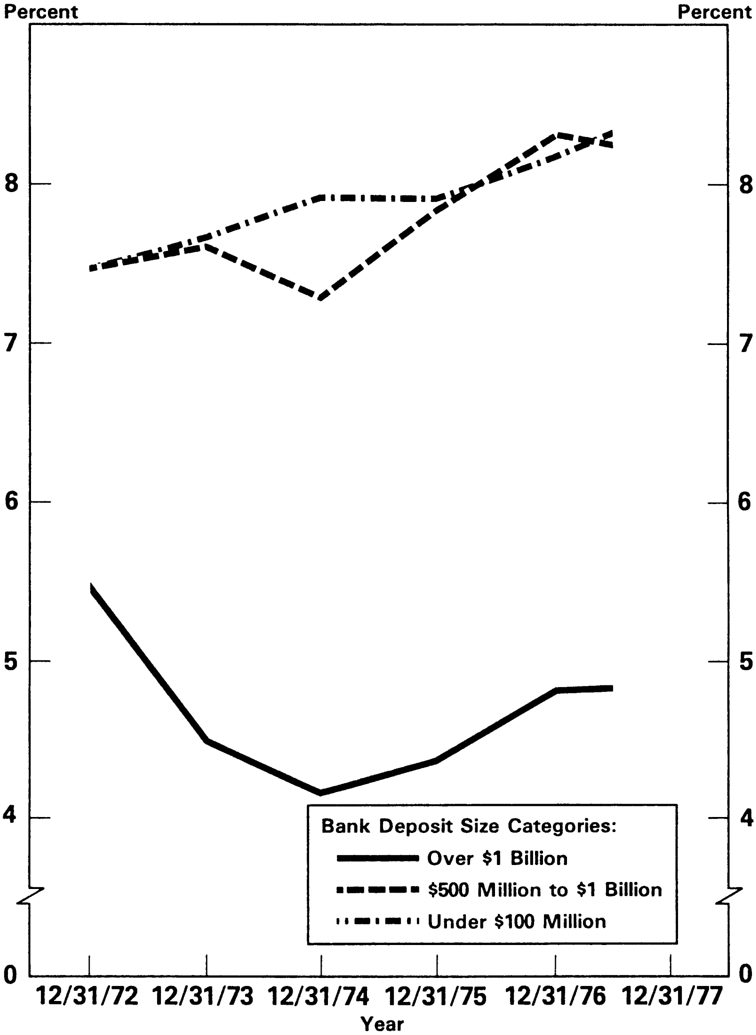
TOTAL CAPITAL AS A PERCENT OF TOTAL ASSETS, NATIONAL BANKS, SELECTED SIZE CATEGORIES, 1972-1977



Data Source: Comptroller of the Currency.

CRS-10

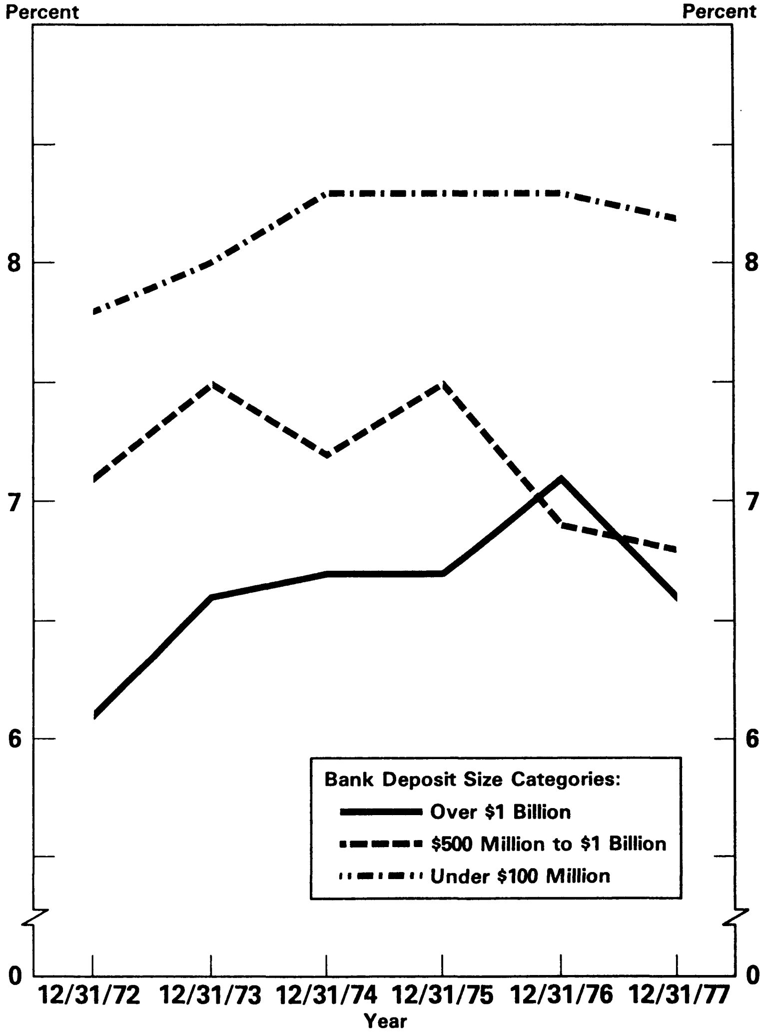
TOTAL CAPITAL AS A PERCENT OF TOTAL ASSETS, STATE MEMBER BANKS, SELECTED SIZE CATEGORIES, 1972-1977



Data Source: Board of Governors of the Federal Reserve System.

CRS-11

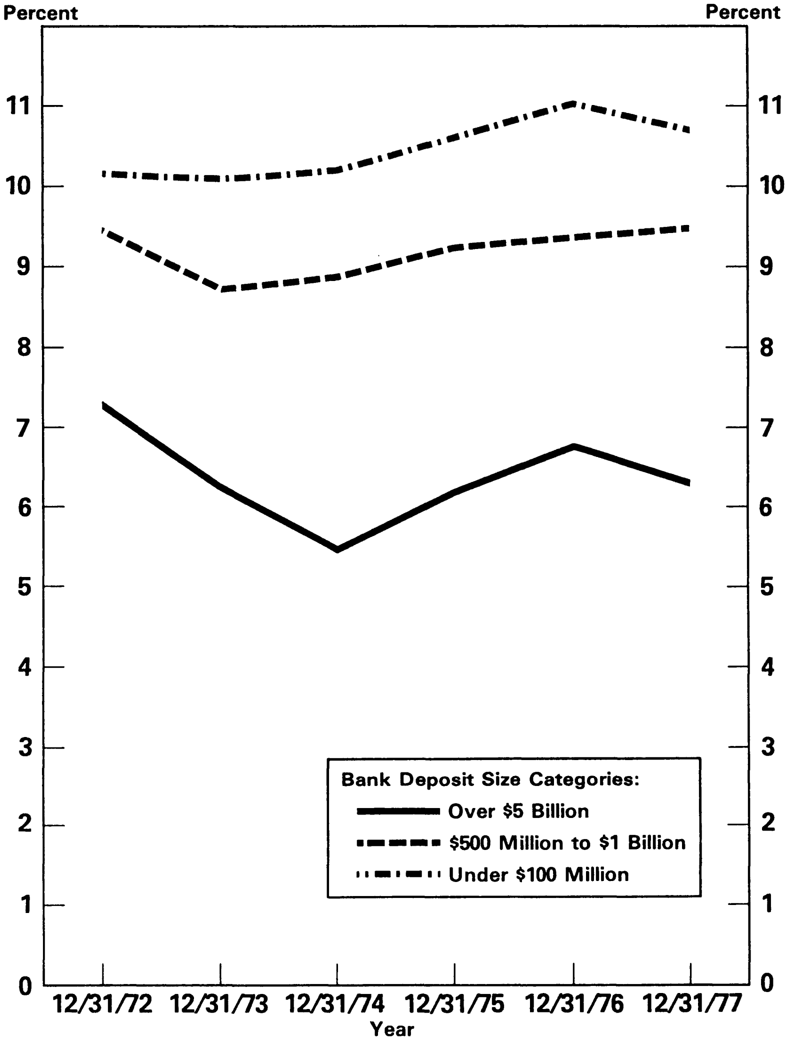
TOTAL CAPITAL AS A PERCENT OF TOTAL ASSETS, INSURED NONMEMBER BANKS, SELECTED SIZE CATEGORIES, 1972-1977



Data Source: Federal Deposit Insurance Corporation.

CRS-12

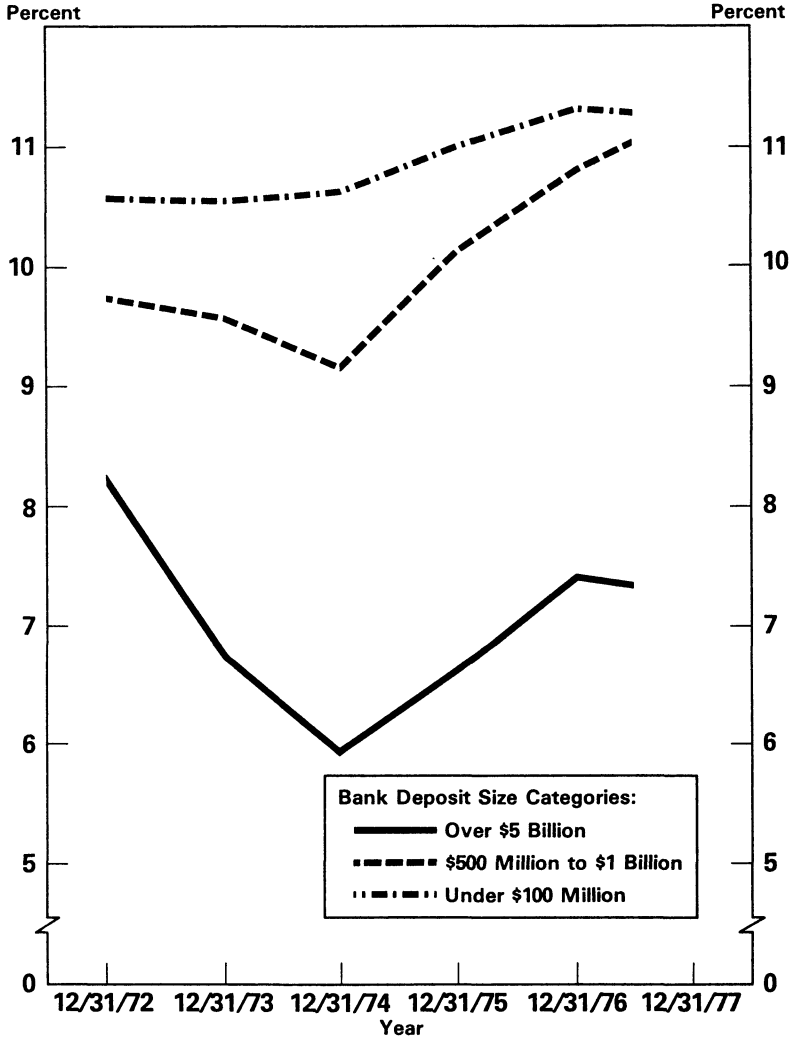
TOTAL CAPITAL AS A PERCENT OF RISK ASSETS, NATIONAL BANKS, SELECTED SIZE CATEGORIES, 1972-1977



Data Source: Comptroller of the Currency.

CRS-13

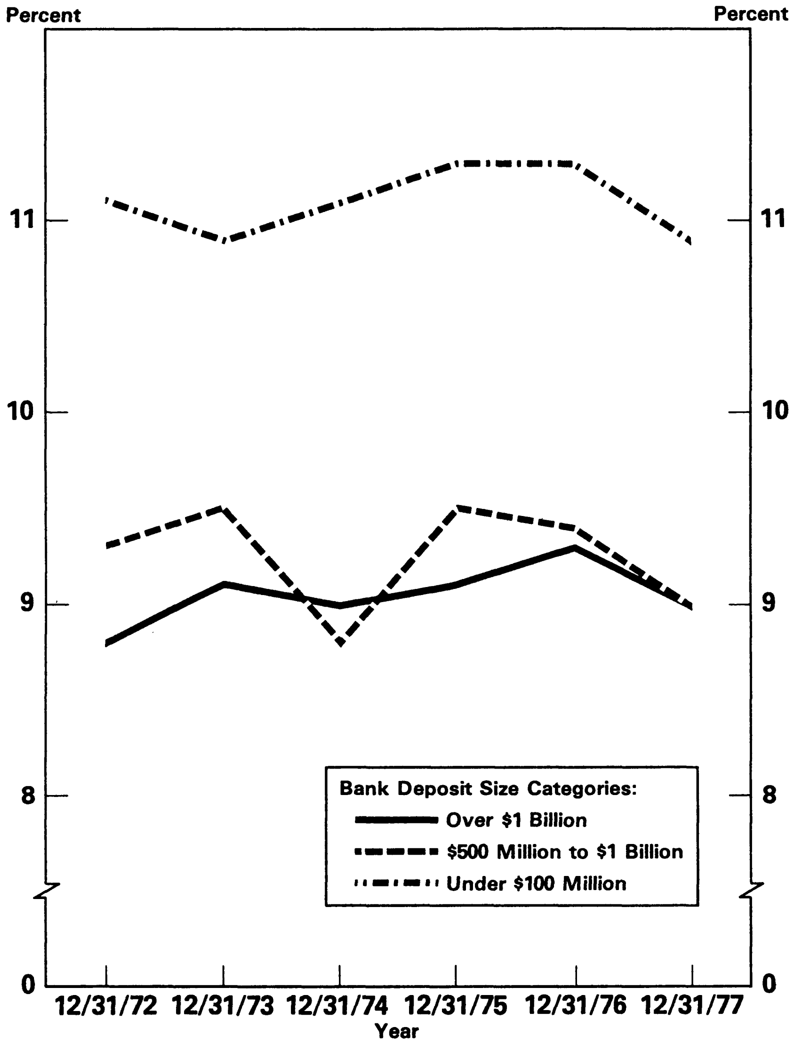
TOTAL CAPITAL AS A PERCENT OF RISK ASSETS, STATE MEMBER BANKS, SELECTED SIZE CATEGORIES, 1972-1977



Data Source: Board of Governors of the Federal Reserve System.

CRS-14

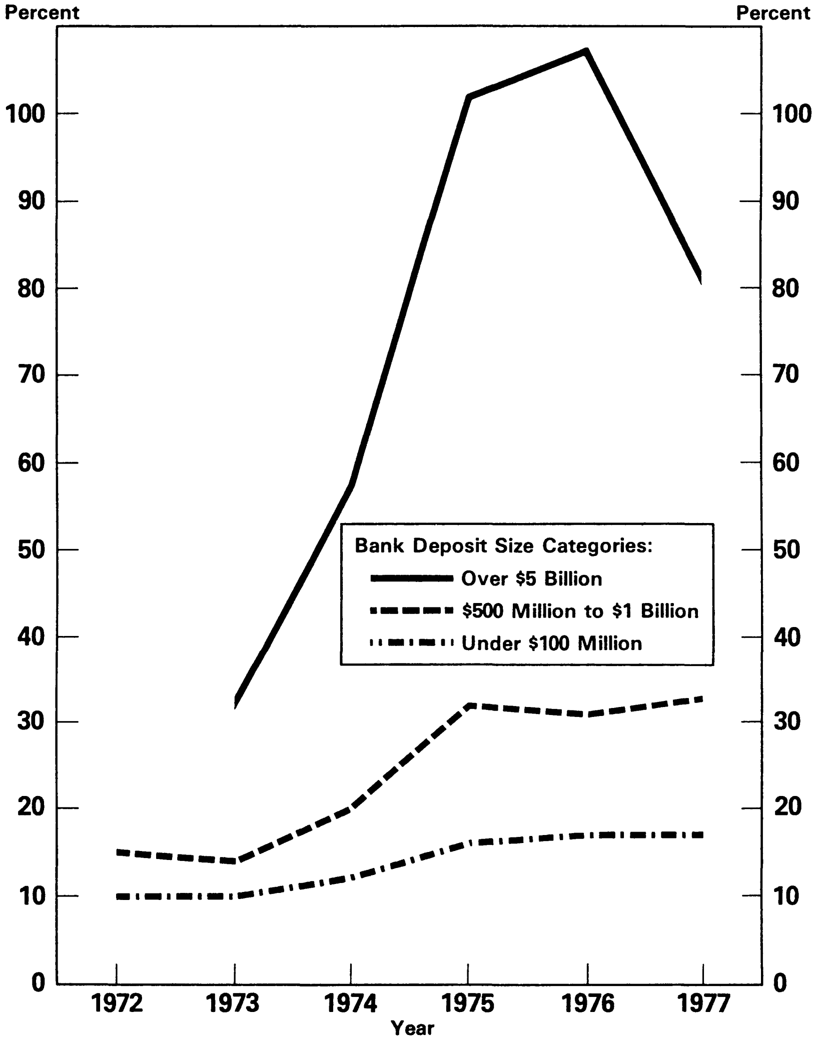
TOTAL CAPITAL AS A PERCENT OF RISK ASSETS, INSURED NONMEMBER BANKS, SELECTED SIZE CATEGORIES, 1972-1977



Data Source: Federal Deposit Insurance Corporation.

CRS-15

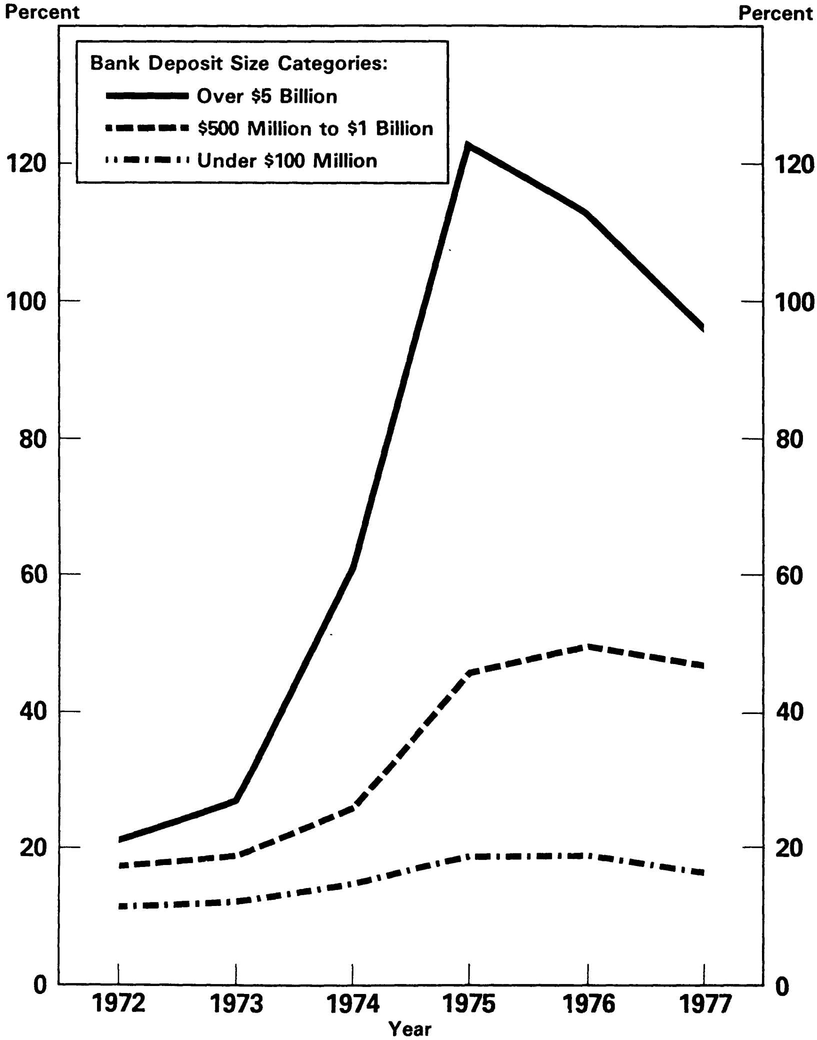
CLASSIFIED ASSETS AS A PERCENT OF GROSS CAPITAL FUNDS, NATIONAL BANKS, SELECTED SIZE CATEGORIES, 1972-1977



Data Source: Comptroller of the Currency.

CRS-16

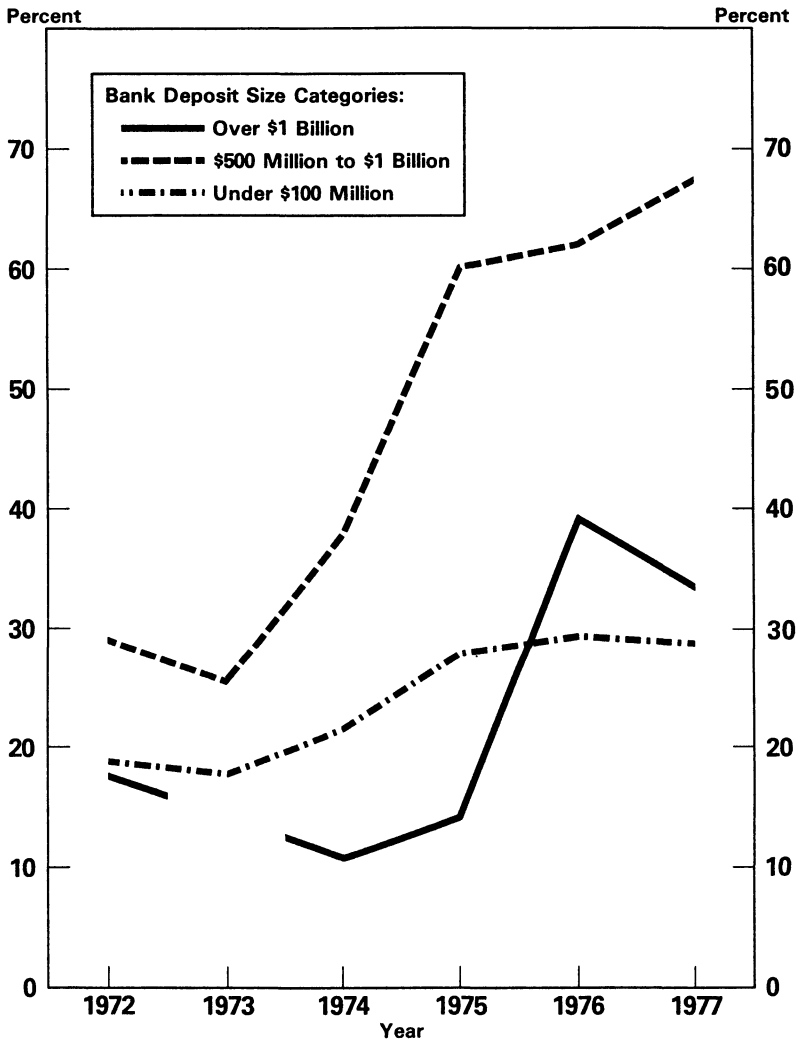
CLASSIFIED ASSETS AS A PERCENT OF TOTAL CAPITAL, STATE MEMBER BANKS, SELECTED SIZE CATEGORIES 1972-1977



Note: 1977 Data reflect examination reports received to February 1, 1978 only.
Data Source: Board of Governors of the Federal Reserve System.

CRS-17

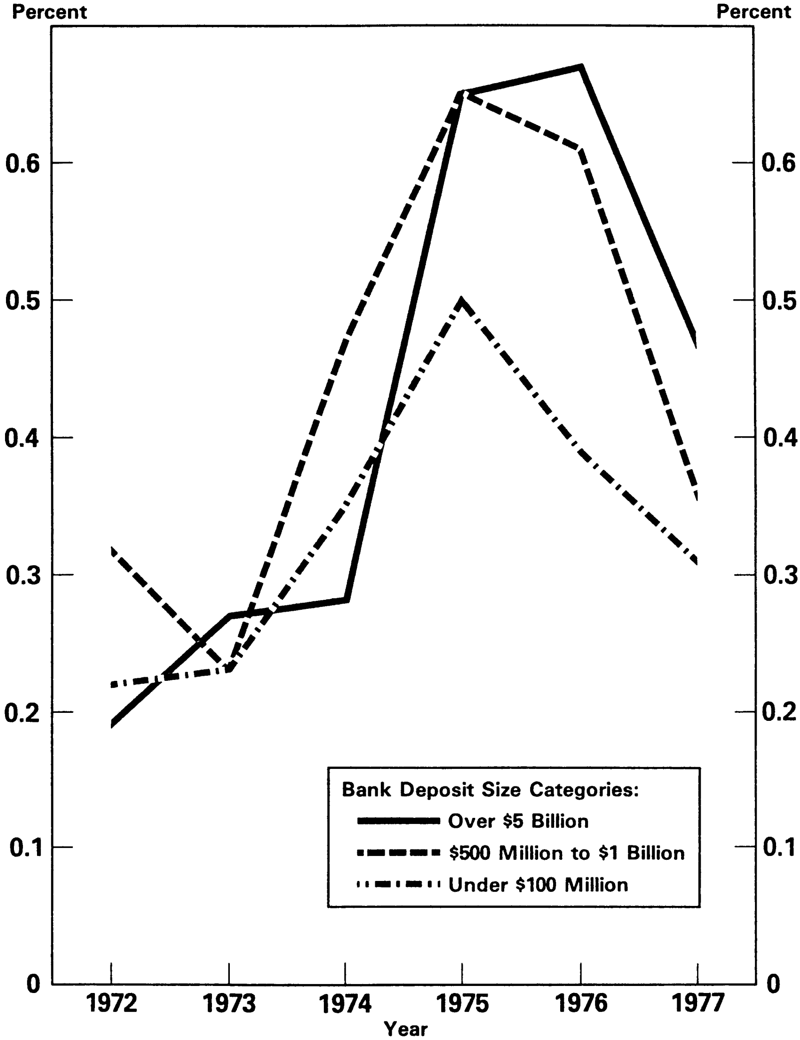
CLASSIFIED ASSETS AS A PERCENT OF TOTAL CAPITAL, INSURED NONMEMBER BANKS, SELECTED SIZE CATEGORIES, 1972-1977



Note: 1977 Data reflect examination reports processed through March 3, 1978.
Data Source: Federal Deposit Insurance Corporation.

CRS-18

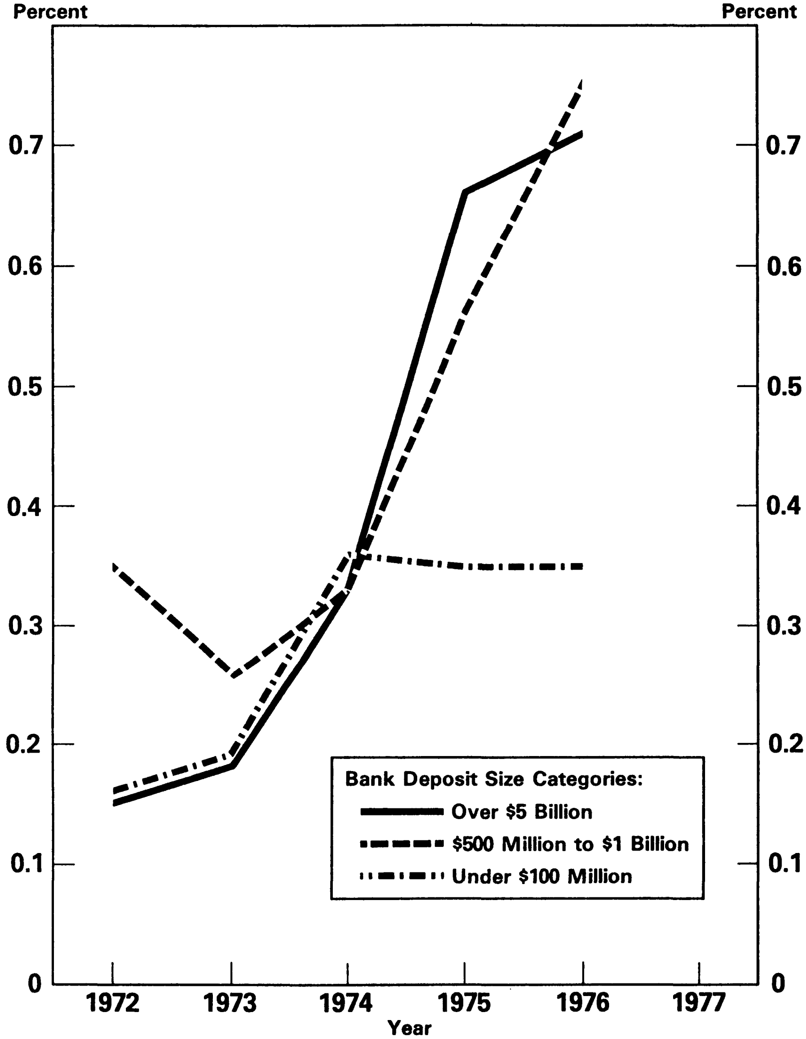
NET LOAN LOSSES AS A PERCENT OF AVERAGE TOTAL LOANS, NATIONAL BANKS, SELECTED SIZE CATEGORIES, 1972-1977



Data Source: Comptroller of the Currency.

CRS-19

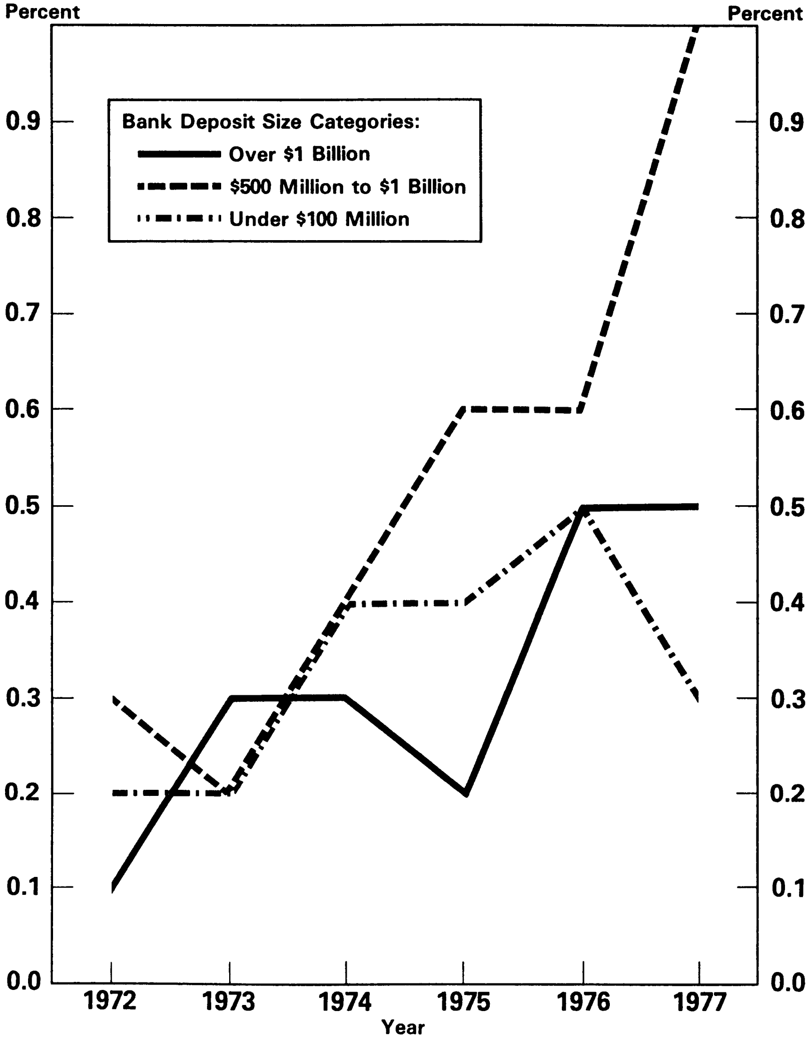
NET LOAN LOSSES AS A PERCENT OF AVERAGE TOTAL LOANS, STATE MEMBER BANKS, SELECTED SIZE CATEGORIES, 1972-1976



Data Source: Board of Governors of the Federal Reserve System.

CRS-20

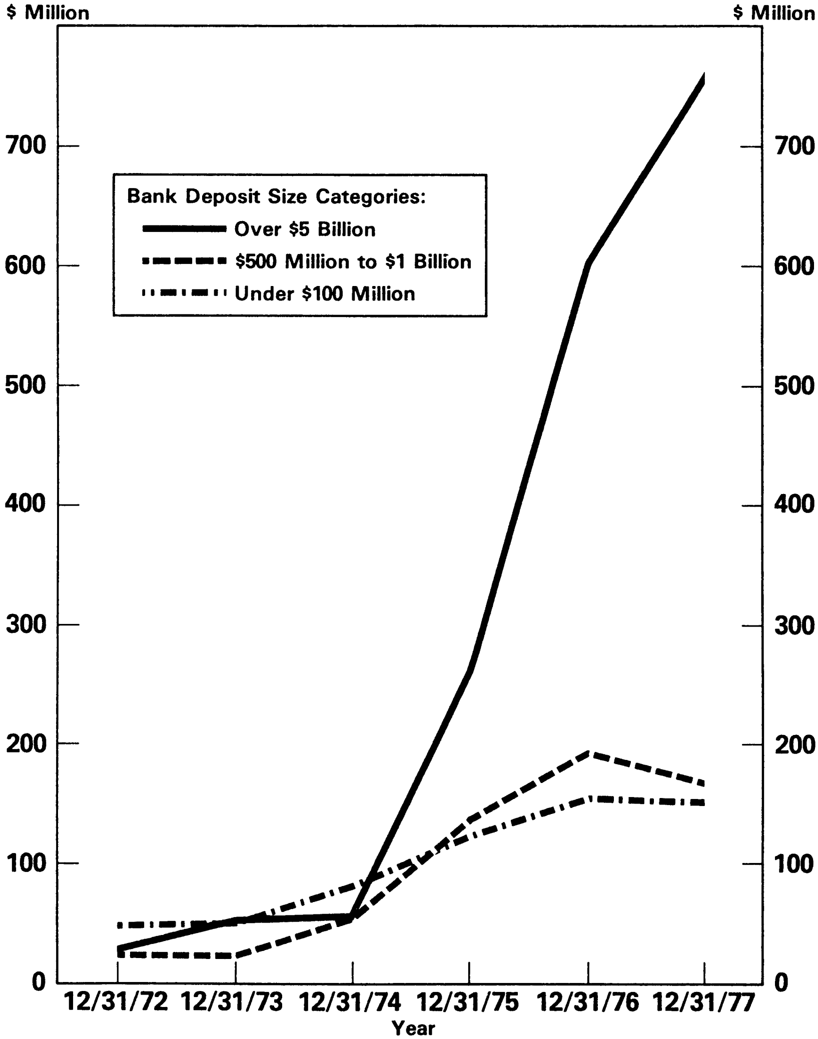
NET LOAN LOSSES AS A PERCENT OF AVERAGE TOTAL LOANS INSURED NONMEMBER BANKS, SELECTED SIZE CATEGORIES, 1972-1977



Data Source: Federal Deposit Insurance Corporation.

CRS-21

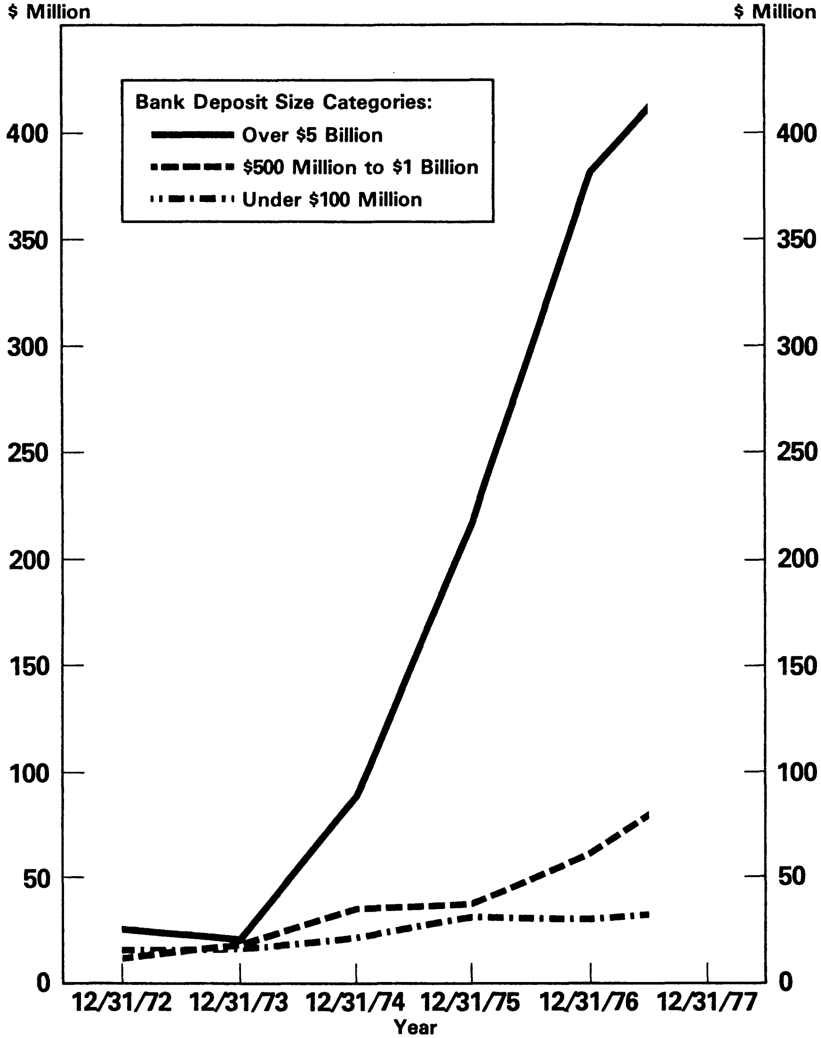
REAL ESTATE OWNED OTHER THAN BANK PREMISES, NATIONAL BANKS, SELECTED SIZE CATEGORIES, 1972-1977



Data Source: Comptroller of the Currency.

CRS-22

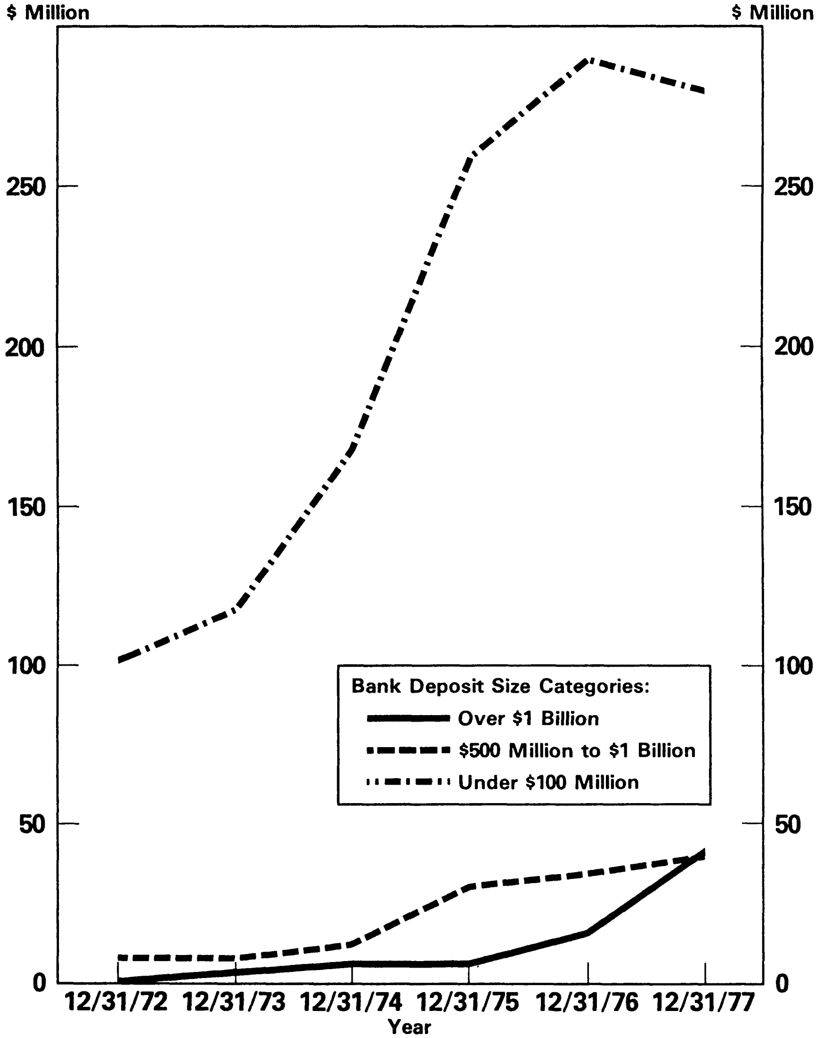
REAL ESTATE OWNED OTHER THAN BANK PREMISES, STATE MEMBER BANKS, SELECTED SIZE CATEGORIES, 1972-1977



Data Source: Board of Governors of the Federal Reserve System.

CRS-23

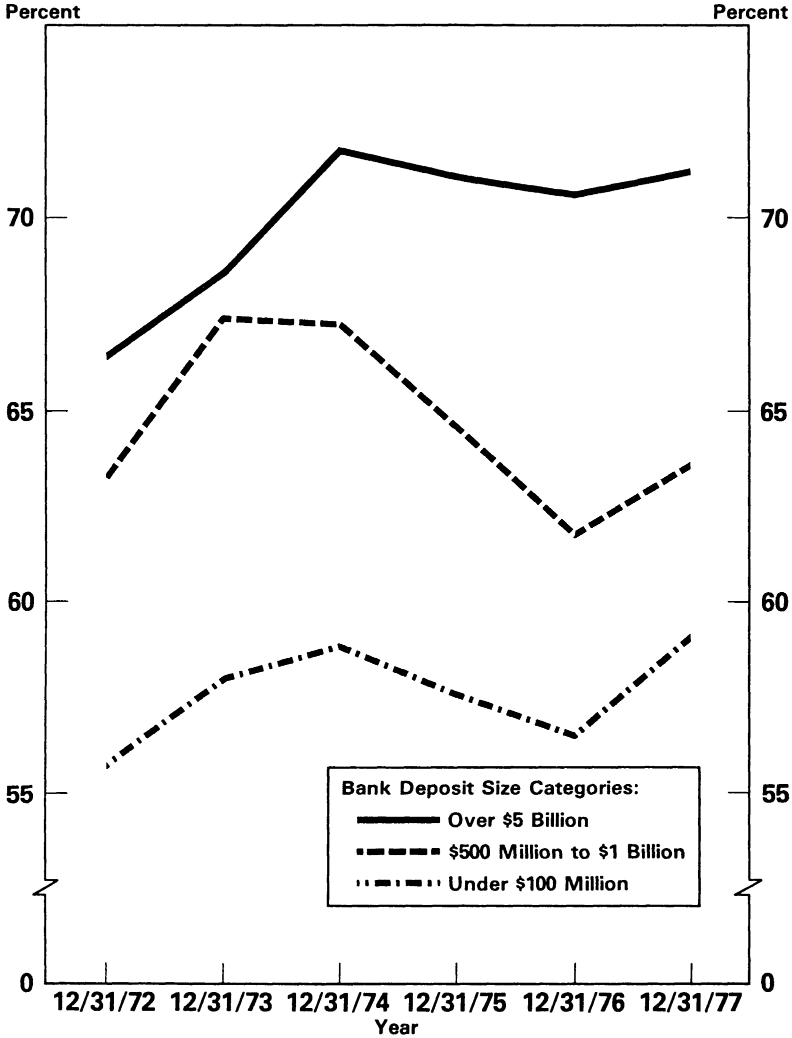
REAL ESTATE OWNED OTHER THAN BANK PREMISES, INSURED NONMEMBER BANKS, SELECTED SIZE CATEGORIES, 1972-1977



Data Source: Federal Deposit Insurance Corporation.

CRS-24

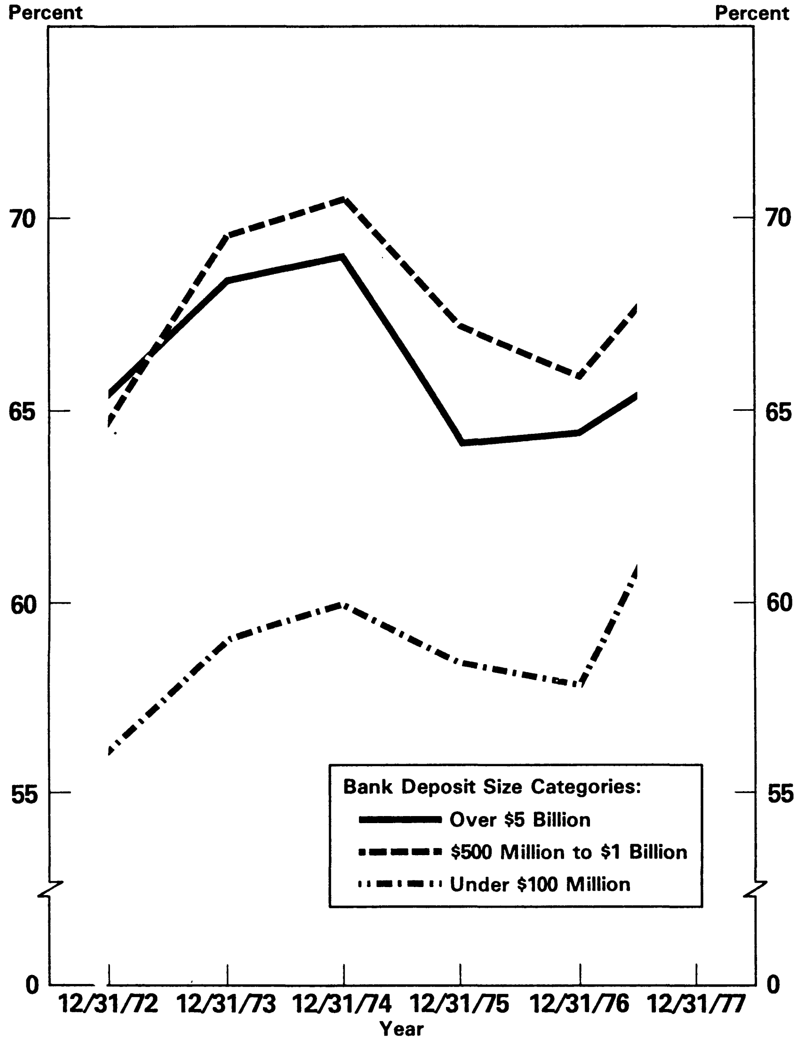
TOTAL LOANS AS A PERCENT OF TOTAL DEPOSITS, NATIONAL BANKS SELECTED SIZE CATEGORIES, 1972-1977



Data Source: Comptroller of the Currency.

CRS-25

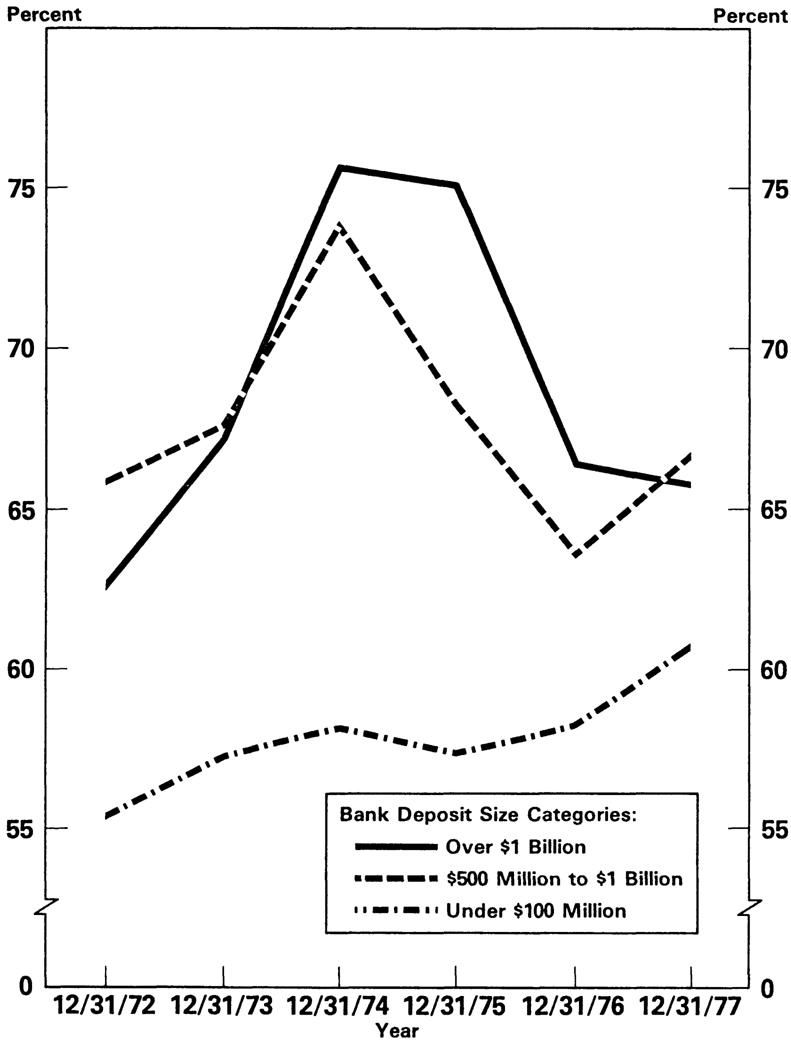
TOTAL LOANS AS A PERCENT OF TOTAL DEPOSITS, STATE MEMBER BANKS, SELECTED SIZE CATEGORIES, 1972-1977



Data Source: Board of Governors of the Federal Reserve System.

CRS-26

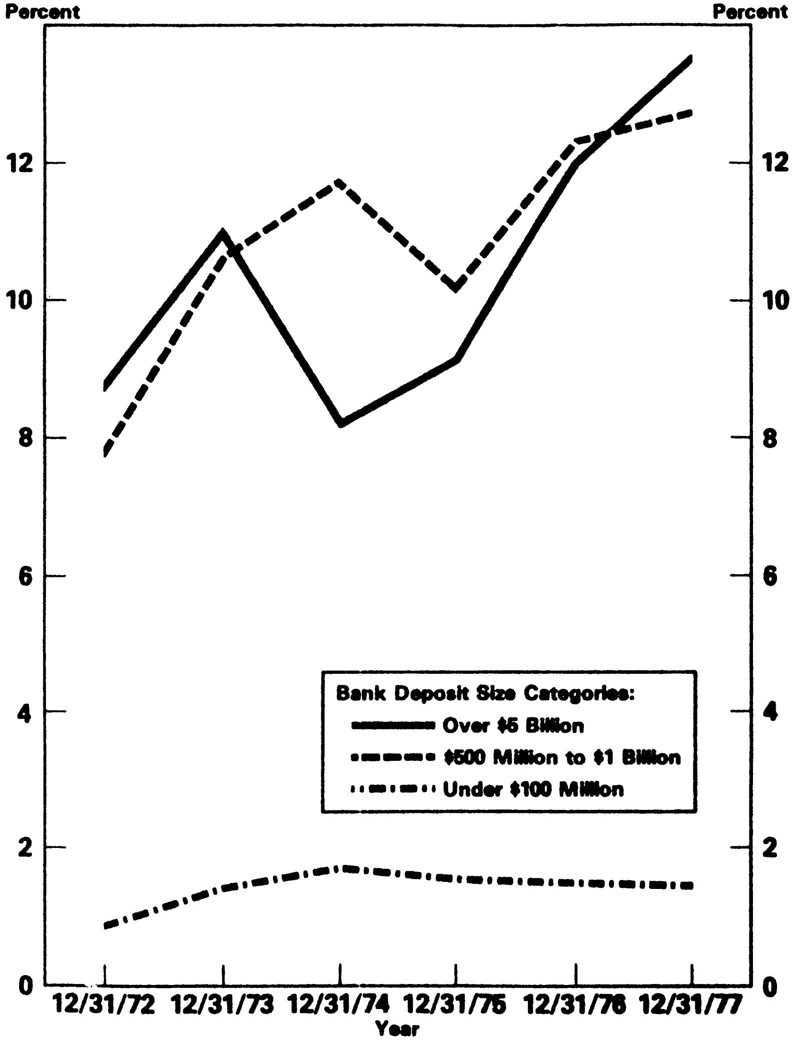
TOTAL LOANS AS A PERCENT OF TOTAL DEPOSITS, INSURED NONMEMBER BANKS, SELECTED SIZE CATEGORIES, 1972-1977



Data Source: Federal Deposit Insurance Corporation.

CRS-27

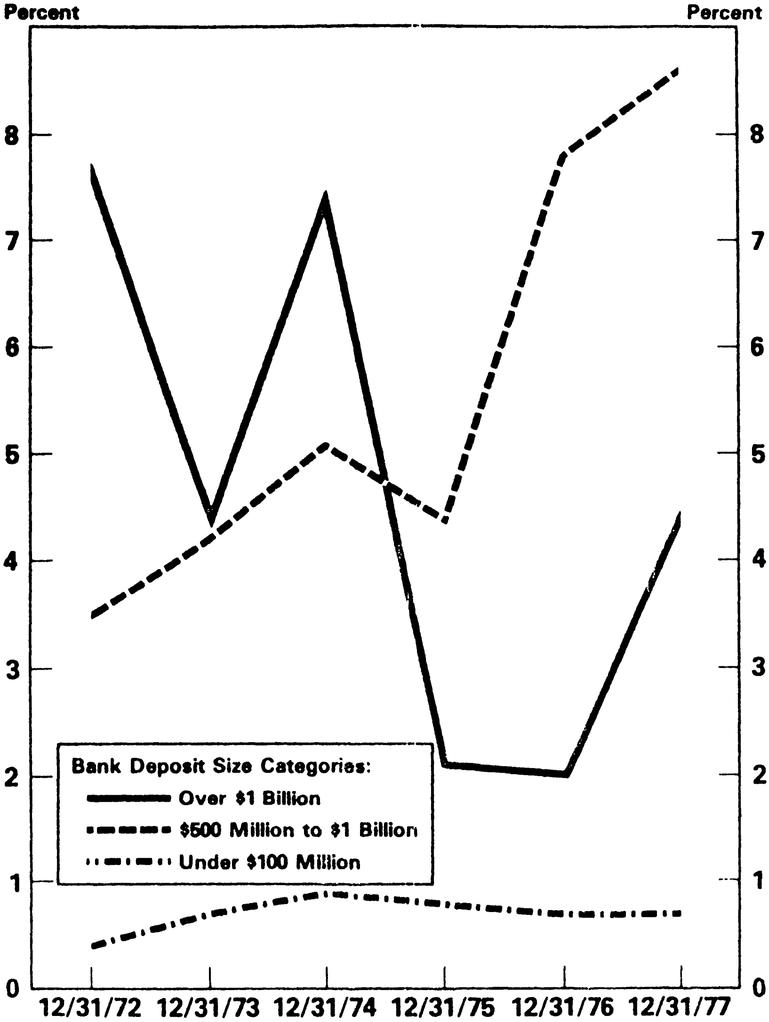
30 DAY AVERAGE BORROWINGS AS A PERCENT OF 30 DAY AVERAGE DEPOSITS, NATIONAL BANKS, SELECTED SIZE CATEGORIES, 1972-1977



Data Source: Comptroller of the Currency.

CRS-28

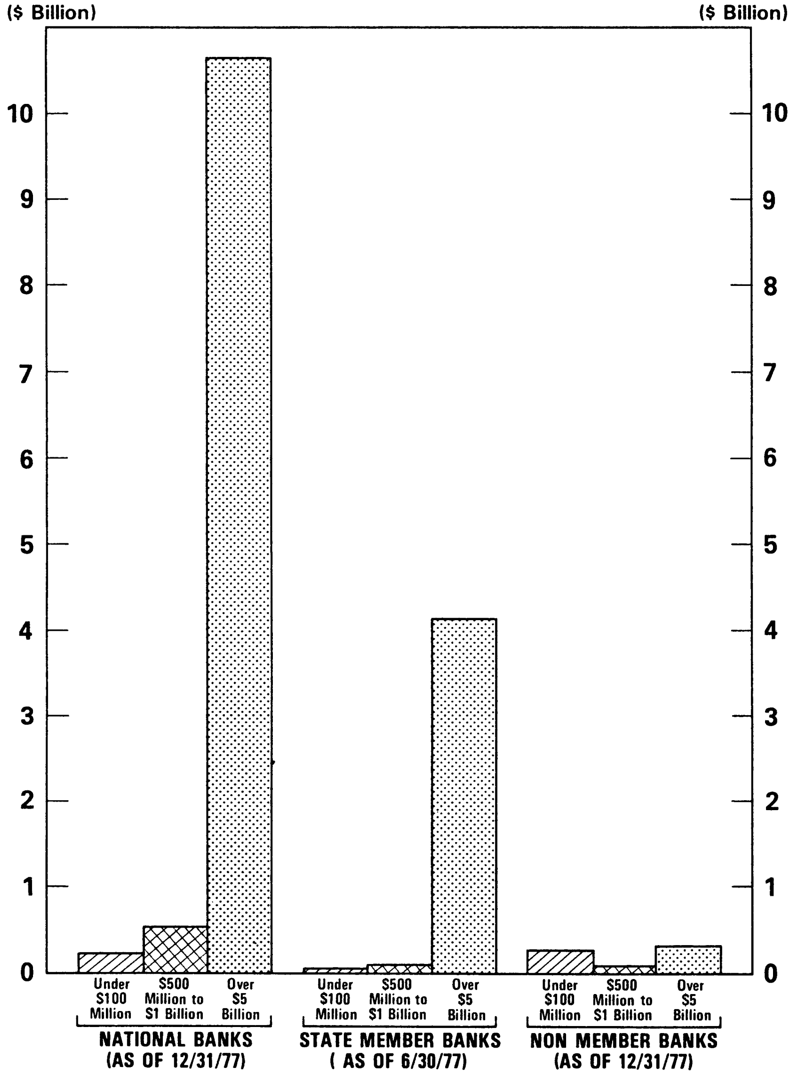
30 DAY AVERAGE BORROWINGS AS A PERCENT OF 30 DAY AVERAGE DEPOSITS, INSURED NONMEMBER BANKS, SELECTED SIZE CATEGORIES, 1972-1977



Data Source: Federal Deposit Insurance Corporation.

CRS-29

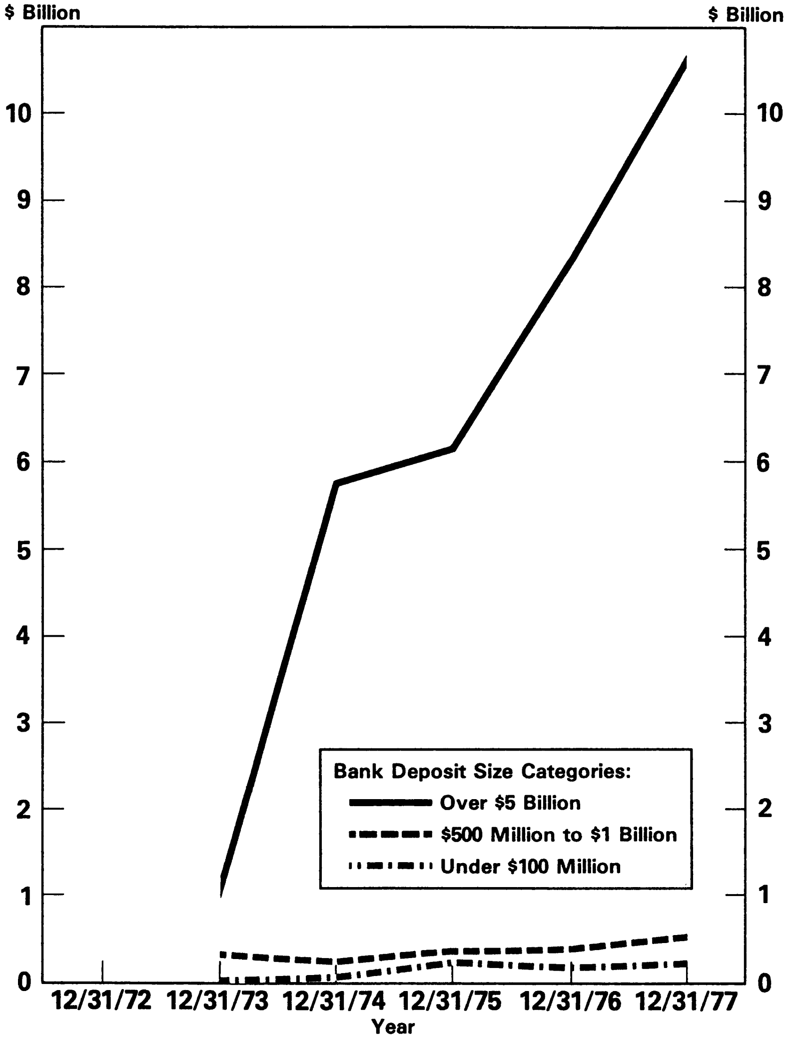
TOTAL STANDBY LETTERS OF CREDIT, INSURED BANKS, SELECTED SIZE CATEGORIES, 1977



Data Source: Comptroller of the Currency
Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation

CRS-30

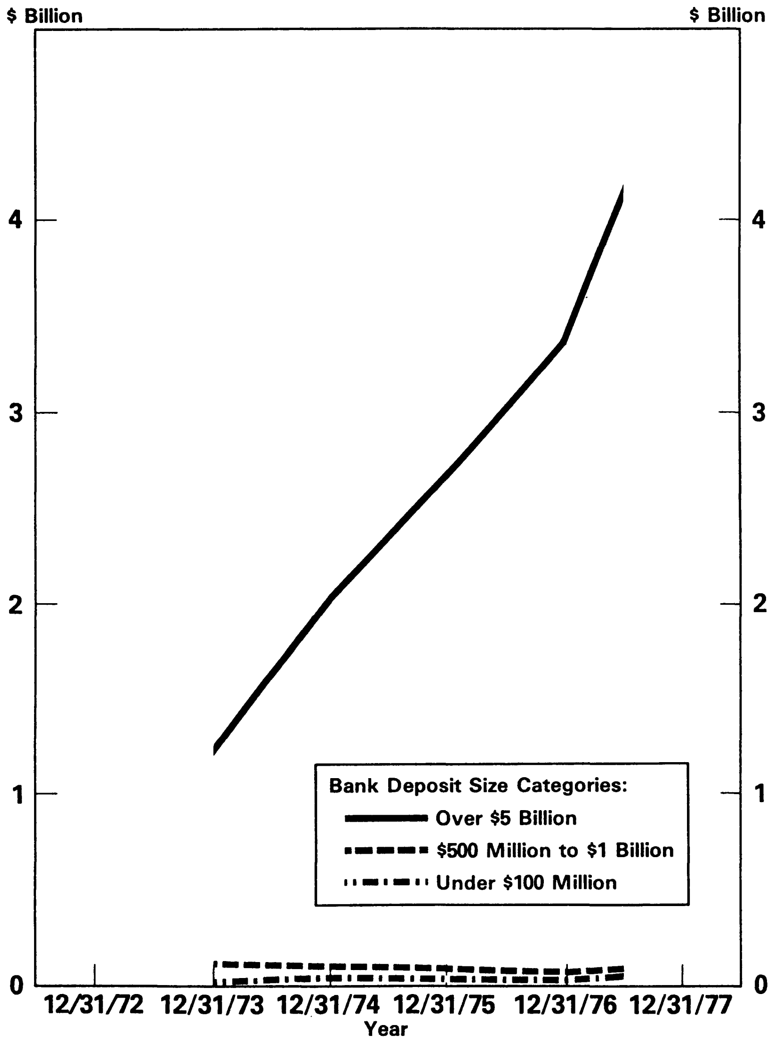
TOTAL STANDBY LETTERS OF CREDIT, NATIONAL BANKS, SELECTED SIZE CATEGORIES, 1973-1977



Data Source: Comptroller of the Currency.

CRS-31

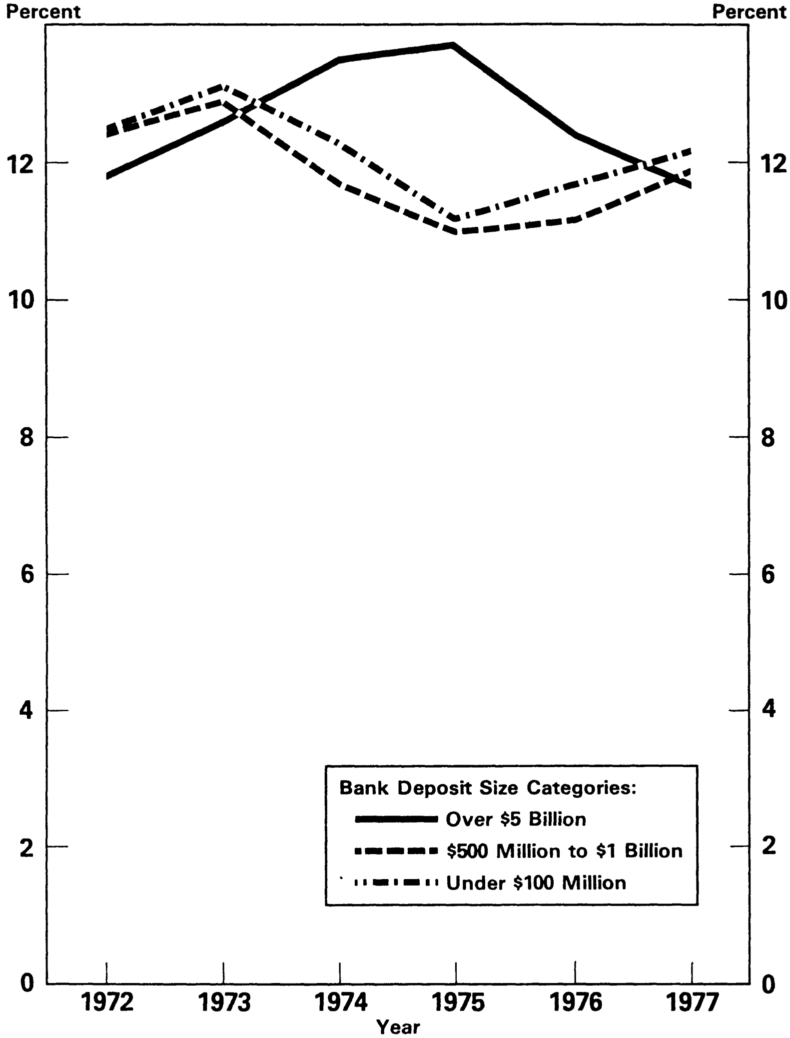
TOTAL STANDBY LETTERS OF CREDIT, STATE MEMBER BANKS, SELECTED SIZE CATEGORIES, 1973-1977



Data Source: Board of Governors of the Federal Reserve System.

CRS-32

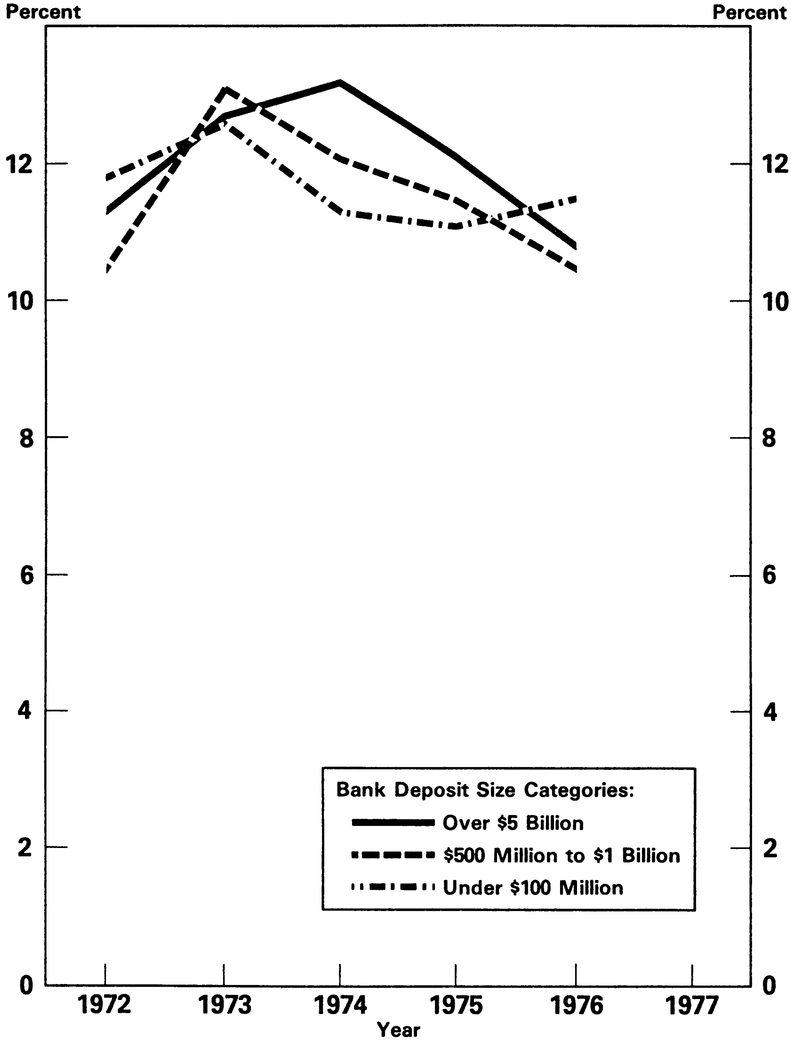
NET INCOME AS A PERCENT OF AVERAGE EQUITY CAPITAL, NATIONAL BANKS, SELECTED SIZE CATEGORIES, 1972-1977



Data Source: Comptroller of the Currency.

CRS-33

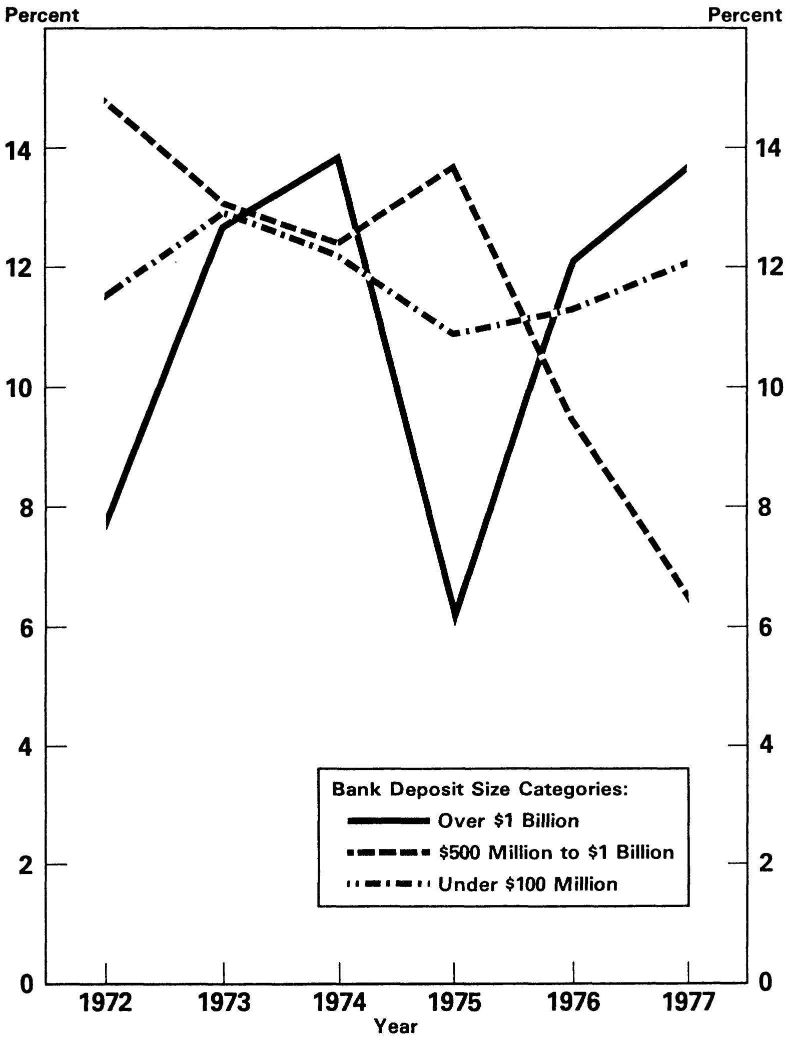
NET INCOME AS A PERCENT OF AVERAGE EQUITY CAPITAL, STATE MEMBER BANKS, SELECTED SIZE CATEGORIES, 1972-1976



Data Source: Board of Governors of the Federal Reserve System.

CRS-34

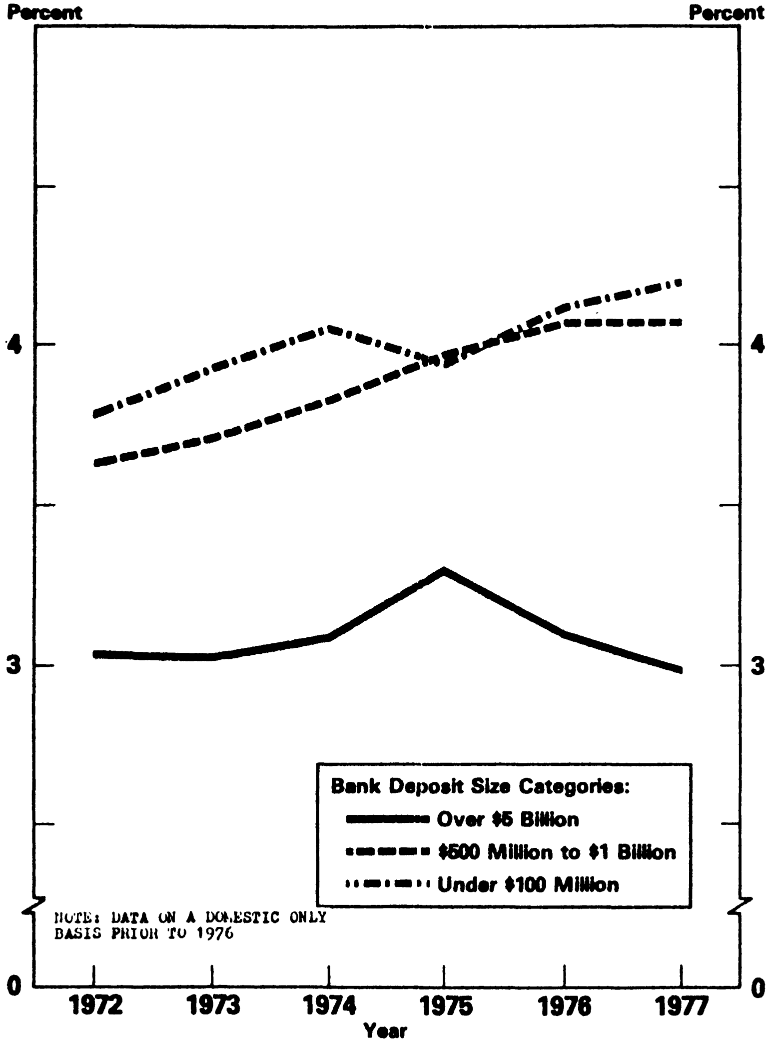
NET INCOME AS A PERCENT OF AVERAGE EQUITY CAPITAL, INSURED NONMEMBER BANKS, SELECTED SIZE CATEGORIES, 1972-1977



Data Source: Federal Deposit Insurance Corporation.

CRS-35

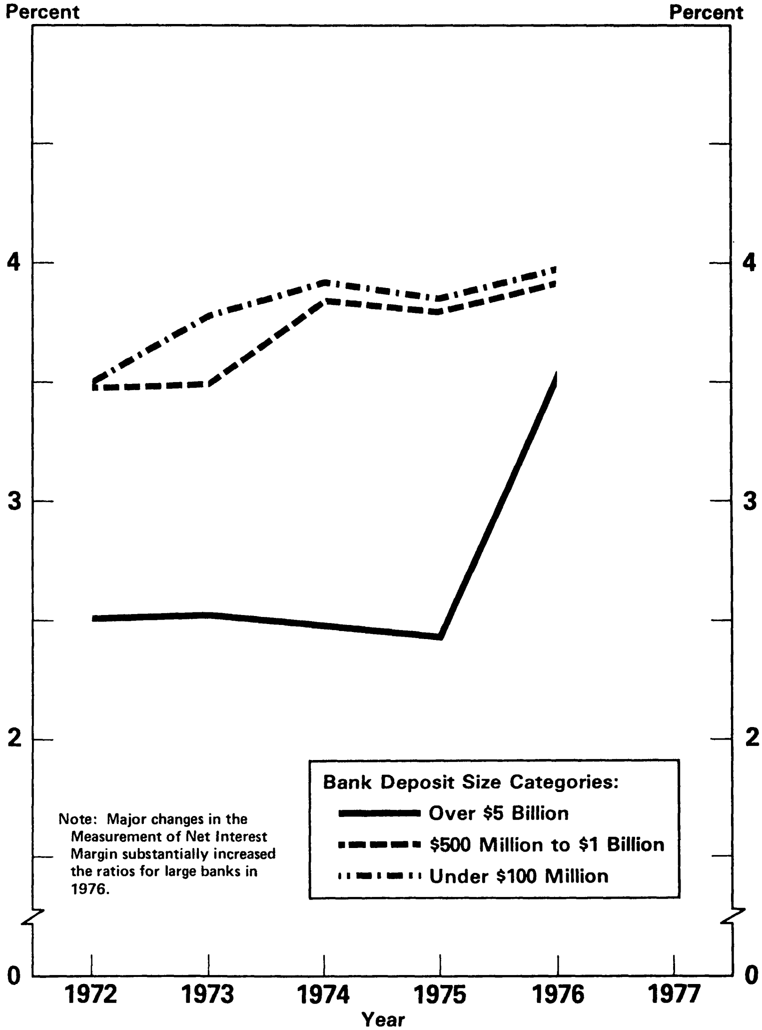
NET INTEREST MARGIN AS A PERCENT OF AVERAGE EARNING ASSETS, NATIONAL BANKS, SELECTED SIZE CATEGORIES, 1972-1976



Data Source: Comptroller of the Currency.

CRS-36

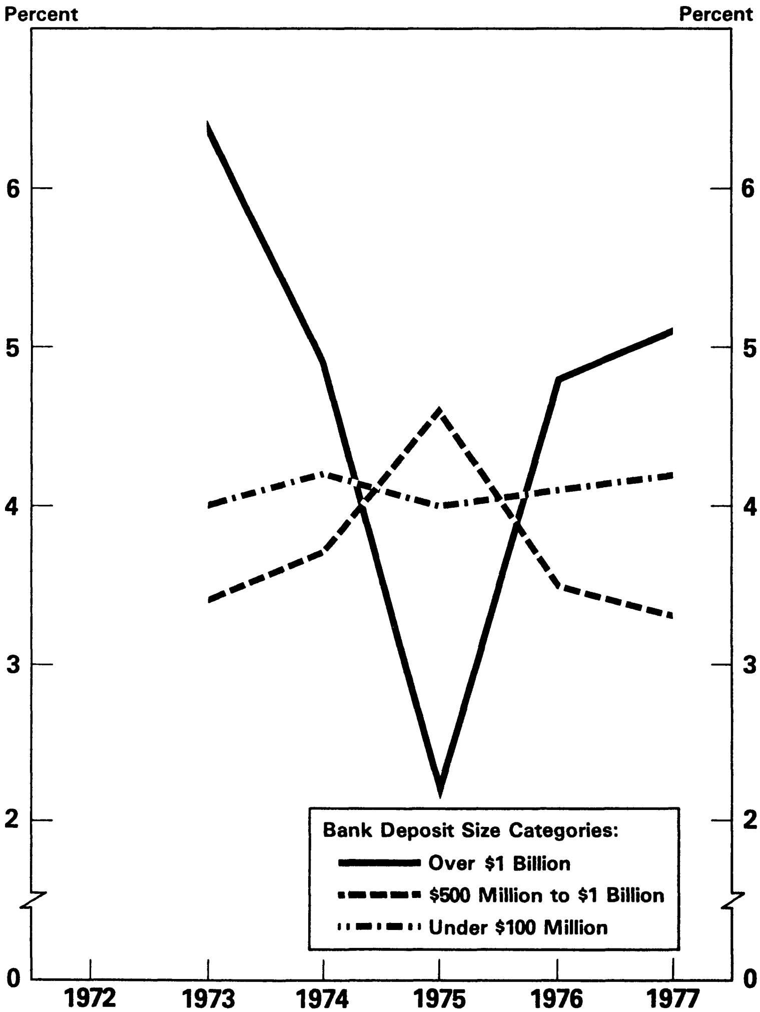
NET INTEREST MARGIN AS A PERCENT OF AVERAGE EARNING ASSETS, STATE MEMBER BANKS, SELECTED SIZE CATEGORIES, 1972-1976



Data Source: Board of Governors of the Federal Reserve System.

CRS-37

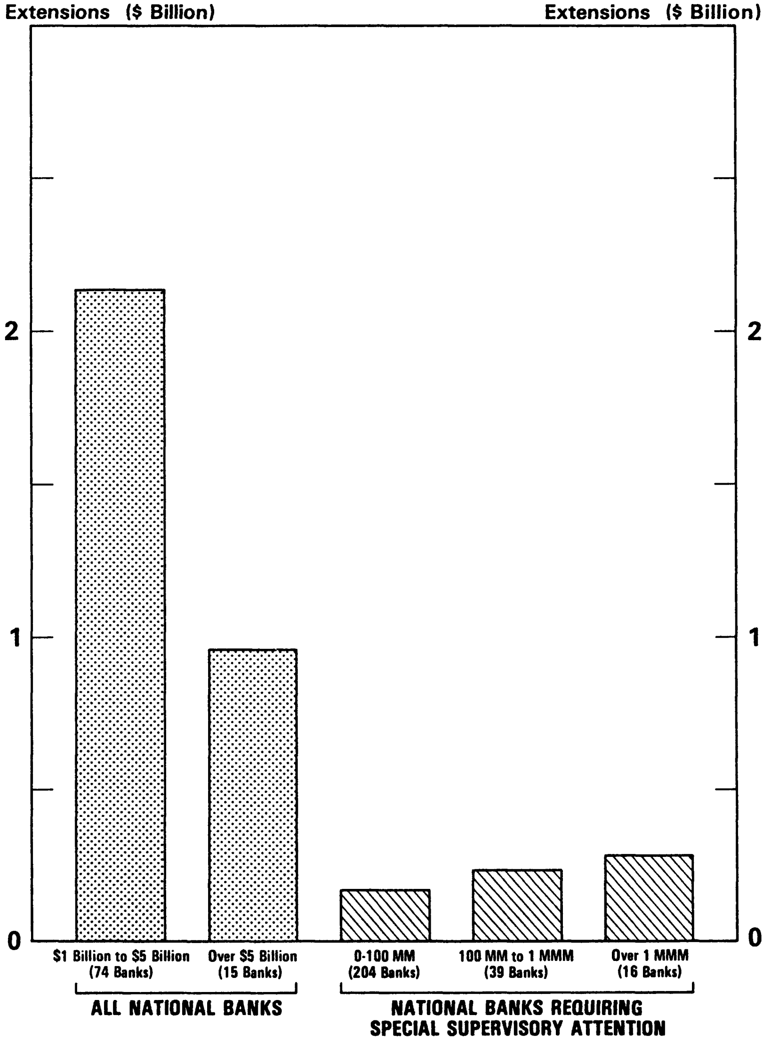
NET INTEREST MARGIN AS A PERCENT OF AVERAGE EARNING ASSETS, INSURED NONMEMBER BANKS, SELECTED SIZE CATEGORIES, 1973-1977



Data Source: Federal Deposit Insurance Corporation.

CRS-38

EXTENSIONS OF CREDIT TO DIRECTORS, OFFICERS, EMPLOYEES AND THEIR INTERESTS, NATIONAL BANKS, BY DEPOSIT SIZE CATEGORIES, 1977



Data Source: Comptroller of the Currency.

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Congressional Research Service

WASHINGTON, D.C. 20540

May 24, 1978

TO : Senate Committee on Banking, Housing and Urban Affairs
Attention: Lindy Marinaccio

FROM : Economics Division

SUBJECT: Data supporting CRS charts for hearings on the condition of the banking system.

Attached please find the data (based on reports of income and condition) which the three bank regulatory agencies supplied for the Committee's hearings on the condition of the banking system.

This is the supporting data for CRS charts 9 through 14 and 18 through 37.

Curtiss Martin
Analyst in Money and Banking

rlh

Comptroller of the Currency
Administrator of National Banks

Washington, D. C. 20219

May 5, 1978

The Honorable William Proxmire
Chairman
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

On April 6, 1978, we furnished you with a recomputation of the June 30, 1977, Schedule A-3, previously provided to you by the Federal Deposit Insurance Corporation. This recomputation was on a fully consolidated foreign and domestic basis.

Attached you will find an update of this schedule with December 30, 1977, data substituted for June 30, 1977.

Sincerely,

John G. Heimann
Comptroller of the Currency

NATIONAL BANKS
1972-1977

DATE	TOTAL	0-100 MILLION	100-500 MILLION	500 MILLION-1 BILLION	1-5 BILLION	OVER 5 BILLION
		TOTAL DEPOSITS IN FOREIGN AND DOMESTIC OFFICES				
NUMBER OF BANKS						
12-31-72	4491.	4073.	306.	56.	46.	10.
12-31-73	4597.	4140.	341.	58.	47.	11.
12-31-74	4706.	4218.	369.	59.	49.	11.
12-31-75	4745.	4213.	406.	64.	51.	11.
12-31-76	4738.	4164.	442.	63.	58.	11.
12-31-77	4656.	4031.	475.	74.	65.	11.
5A TOTAL EQUITY & DEBT CAPITAL (IN MILLIONS)						
12-31-72	30112.	7128.	5147.	3188.	5888.	8762.
12-31-73	33011.	7911.	5806.	3374.	6189.	9730.
12-31-74	35877.	8669.	6393.	3599.	6835.	10390.
12-31-75	39069.	9135.	6879.	3869.	7622.	11565.
12-31-76	44047.	9748.	7700.	3870.	9069.	13561.
12-31-77	48014.	10103.	8066.	4565.	10367.	14913.
5B PERCENTAGE OF EQUITY CAPITAL TO TOTAL ASSETS						
12-31-72	5.78	7.02	6.43	6.51	5.41	4.79
12-31-73	5.44	7.15	6.36	6.18	5.05	4.25
12-31-74	5.33	7.41	6.60	6.27	5.12	3.86
12-31-75	5.61	7.42	6.66	6.50	5.51	4.25
12-31-76	5.87	7.73	6.92	6.52	5.78	4.59
12-31-77	5.65	7.63	6.78	6.41	5.60	4.36
5C PERCENTAGE OF EQUITY CAPITAL TO TOTAL DEPOSITS						
12-31-72	6.87	7.89	7.47	7.80	6.75	5.77
12-31-73	6.59	8.10	7.53	7.60	6.56	5.19
12-31-74	6.46	8.45	7.85	7.82	6.67	4.67
12-31-75	6.79	8.48	7.86	7.98	7.10	5.17
12-31-76	7.10	8.61	8.03	7.96	7.47	5.66
12-31-77	6.88	8.50	7.88	7.86	7.25	5.43
5D PERCENTAGE OF DEBT CAPITAL TO TOTAL CAPITAL						
12-31-72	6.91	2.68	5.76	7.41	12.59	7.03
12-31-73	6.65	3.11	6.64	7.80	12.73	5.26
12-31-74	6.38	3.13	5.72	8.29	12.56	4.78
12-31-75	5.91	3.29	5.64	6.84	11.36	4.25
12-31-76	6.19	3.40	5.70	7.04	11.07	4.99
12-31-77	6.32	3.50	6.03	9.53	10.50	4.50

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NATIONAL BANKS
1972-1977

		TOTAL DEPOSITS IN FOREIGN AND DOMESTIC OFFICES				
DATE	TOTAL	0-100 MILLION	100-500 MILLION	500 MILLION-1 BILLION	1-5 BILLION	OVER 5 BILLION
5E PERCENTAGE OF TOTAL CAPITAL TO TOTAL ASSETS						
12-31-72	6.21	7.22	6.82	7.03	6.19	5.15
12-31-73	5.82	7.38	6.81	6.70	5.78	4.48
12-31-74	5.69	7.64	7.00	6.84	5.86	4.05
12-31-75	5.96	7.67	7.05	6.98	6.21	4.44
12-31-76	6.25	8.00	7.34	7.01	6.50	4.83
12-31-77	6.03	7.91	7.21	7.09	6.25	4.56
5F PERCENTAGE OF TOTAL CAPITAL TO TOTAL LIABILITIES						
12-31-72	6.68	7.84	7.39	7.63	6.66	5.48
12-31-73	6.24	8.04	7.38	7.25	6.19	4.73
12-31-74	6.09	8.35	7.60	7.41	6.28	4.26
12-31-75	6.40	8.38	7.66	7.57	6.69	4.68
12-31-76	6.67	8.70	7.92	7.54	6.95	5.07
12-31-77	6.41	8.59	7.77	7.63	6.67	4.78
5G PERCENTAGE OF TOTAL CAPITAL TO RISK ASSETS						
12-31-72	8.62	10.17	9.32	9.46	8.41	7.28
12-31-73	7.92	10.09	9.03	8.70	7.72	6.26
12-31-74	7.57	10.22	9.22	8.87	7.65	5.47
12-31-75	8.22	10.60	9.63	9.25	8.52	6.20
12-31-76	8.67	11.04	10.04	9.35	9.13	6.74
12-31-77	8.30	10.72	9.80	9.49	8.82	6.31
9A TOTAL LOANS (EXCLUDING FEDERAL FUNDS) (IN MILLIONS)						
12-31-72	255860.	49015.	38558.	23911.	50694.	93682.
12-31-73	307366.	54910.	45410.	27577.	57649.	121820.
12-31-74	350968.	58531.	48510.	28386.	63560.	151981.
12-31-75	353702.	60028.	49293.	29178.	62889.	152314.
12-31-76	372477.	61791.	52022.	27922.	68849.	161893.
12-31-77	429236.	67762.	57713.	33354.	83571.	186837.
9B PERCENTAGE OF TOTAL LOANS TO TOTAL DEPOSITS						
12-31-72	62.70	55.72	59.41	63.20	66.45	66.39
12-31-73	65.74	58.06	63.11	67.37	69.99	68.56
12-31-74	67.50	58.87	63.14	67.22	70.92	71.74
12-31-75	65.32	57.60	59.68	64.57	66.11	71.05
12-31-76	63.97	56.53	57.52	61.75	63.77	70.59
12-31-77	65.65	59.10	59.99	63.52	65.32	71.17

NATIONAL BANKS
1972-1977

	DATE	TOTAL	TOTAL DEPOSITS IN FOREIGN AND DOMESTIC OFFICES: 0-100 MILLION	100-500 MILLION	500 MILLION-1 BILLION	1-5 BILLION	OVER 5 BILLION
9C	PERCENTAGE OF NET LOAN LOSSES TO AVERAGE TOTAL LOANS						
	12-31-72	0.22	0.22	0.23	0.32	0.24	0.19
	12-31-73	0.25	0.23	0.24	0.23	0.25	0.27
	12-31-74	0.36	0.35	0.38	0.47	0.48	0.28
	12-31-75	0.60	0.50	0.57	0.65	0.57	0.65
	12-31-76	0.60	0.39	0.53	0.61	0.66	0.67
	12-31-77	0.42	0.31	0.33	0.36	0.49	0.47
10A	TOTAL 30 DAY AVERAGE BORROWINGS (IN MILLIONS)						
	12-31-72	27627.	748.	3108.	2852.	8920.	11999.
	12-31-73	42728.	1304.	4579.	4158.	13568.	19120.
	12-31-74	42321.	1667.	4956.	4716.	13914.	17057.
	12-31-75	43758.	1543.	4803.	4450.	13730.	19232.
	12-31-76	59047.	1586.	6052.	5374.	19211.	26874.
	12-31-77	71760.	1650.	6215.	6364.	23160.	34372.
10B	PERCENTAGE OF 30 DAY AVERAGE BORROWINGS TO 30 DAY AVERAGE DEPOSITS						
	12-31-72	6.98	0.86	4.97	7.83	12.20	8.75
	12-31-73	9.41	1.41	6.59	10.59	17.34	10.96
	12-31-74	8.37	1.71	6.68	11.70	16.25	8.21
	12-31-75	8.32	1.52	6.09	10.20	15.13	9.12
	12-31-76	10.40	1.47	6.83	12.31	18.54	12.00
	12-31-77	11.37	1.46	6.68	12.76	19.04	13.52
12	TOTAL OTHER REAL ESTATE (IN MILLIONS)						
	12-31-72	169.	46.	32.	23.	38.	28.
	12-31-73	226.	50.	41.	22.	60.	53.
	12-31-74	393.	81.	79.	54.	122.	56.
	12-31-75	1060.	123.	191.	136.	350.	260.
	12-31-76	1770.	155.	226.	192.	595.	602.
	12-31-77	1913.	153.	203.	168.	635.	755.
13A	PERCENTAGE OF NET INCOME TO AVERAGE TOTAL ASSETS						
	12-31-72	0.74	0.90	0.83	0.83	0.73	0.59
	12-31-73	0.73	0.96	0.79	0.83	0.69	0.58
	12-31-74	0.67	0.91	0.77	0.73	0.63	0.54
	12-31-75	0.67	0.84	0.72	0.72	0.68	0.56
	12-31-76	0.69	0.92	0.78	0.75	0.67	0.56
	12-31-77	0.70	0.96	0.85	0.79	0.69	0.53

NATIONAL BANKS
1972-1977

	DATE	TOTAL	TOTAL DEPOSITS IN FOREIGN AND DOMESTIC OFFICES				
			0-100 MILLION	100-500 MILLION	500 MILLION-1 BILLION	1-5 BILLION	OVER 5 BILLION
13B PERCENTAGE OF NET INCOME TO AVERAGE EQUITY CAPITAL							
	12-31-72	12.34	12.51	12.50	12.44	12.83	11.73
	12-31-73	12.77	13.12	12.11	12.90	13.12	12.63
	12-31-74	12.49	12.31	11.64	11.67	12.43	13.46
	12-31-75	12.07	11.22	10.74	11.03	12.49	13.66
	12-31-76	11.70	11.74	11.05	11.20	11.40	12.37
	12-31-77	11.96	12.23	12.21	11.91	11.82	11.75
13C PERCENTAGE OF NET INTEREST MARGIN TO AVERAGE EARNING ASSETS							
	12-31-72	3.49	3.78	3.66	3.63	3.53	3.04
	12-31-73	3.51	3.93	3.66	3.71	3.47	3.03
	12-31-74	3.60	4.05	3.78	3.83	3.60	3.09
	12-31-75	3.69	3.94	3.88	3.97	3.68	3.30
	12-31-76	3.59	4.12	4.03	4.07	3.58	3.10
	12-31-77	3.55	4.20	4.09	4.07	3.56	2.99
15 TOTAL STANDBY LETTERS OF CREDIT (IN MILLIONS)							
	12-31-72	0.	0.	0.	0.	0.	0.
	12-31-73	2598.	0.	28.	310.	1125.	1134.
	12-31-74	7196.	2.	45.	237.	1137.	5774.
	12-31-75	8286.	250.	371.	348.	1168.	6149.
	12-31-76	10527.	175.	418.	382.	1239.	8313.
	12-31-77	13549.	209.	479.	506.	1719.	10635.

SOURCE: Reports of Condition, Reports of Income, and Special Reports.

FOOTNOTES:

Number of banks: Statistics for 1972 and 1973 include only those banks that were still in the national banking system at year end 1974.

AVERAGES: Averages were calculated using the figures from each Report of Condition filed during the year plus the preceding year end. Three period averages are used for those banks submitting a consolidated foreign and domestic report in 1975 and prior since those reports were filed on a semi-annual basis only.

13c. This ratio is on a domestic only basis for 1975 and prior.

15. Data for 1975 and prior is unedited.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D.C. 20551

G. WILLIAM MILLER
CHAIRMAN

April 25, 1978

The Honorable William Proxmire
Chairman
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Chairman Proxmire:

The enclosed financial data for state member banks for 1972-77 is an addendum to the data that the Federal Reserve submitted to you on February 27, 1978, in connection with upcoming testimony on the condition of the banking system. Similar data was originally furnished to you on a domestic-only basis by the Federal Deposit Insurance Corporation on March 3, 1978. We have compiled these data on a fully consolidated foreign and domestic basis at the request of Mr. Marinaccio, Special Counsel to the Committee.

Sincerely,

Bill

Enclosure

FINANCIAL DATA FOR STATE MEMBER BANKS 1/
1972-77

Question		Date	Total	Total Deposits in Domestic Offices: 0-100 Million	100-500 Million	500 Million-1 Billion	1-5 Billion	Over 5 Billion
	Number of State Member Banks	12-31-72	1,092	963	90	19	14	6
		12-31-73	1,076	948	89	16	16	7
		12-31-74	1,074	950	85	15	17	7
		12-31-75	1,046	915	90	16	18	7
		12-31-76	1,023	884	100	17	15	7
		6-30-77	1,019	887	94	17	14	7
5a	Total Equity & Debt Capital (in $ millions)	12-31-72	10,937	1,575	1,641	1,238	2,430	4,051
		12-31-73	11,690	1,704	1,721	1,107	2,657	4,498
		12-31-74	12,472	1,870	1,786	1,028	2,812	4,974
		12-31-75	13,121	1,880	1,787	1,062	3,042	5,348
		12-31-76	14,653	1,898	1,895	1,258	3,052	6,549
		6-30-77	14,946	2,010	1,849	1,333	3,012	6,741
5b	Percentage of Equity Capital to Total Assets	12-31-72	5.52%	7.23%	6.78%	6.64%	5.34%	4.50%
		12-31-73	5.15%	7.40%	6.90%	6.75%	5.45%	3.87%
		12-31-74	5.09%	7.67%	7.25%	6.69%	5.82%	3.71%
		12-31-75	5.25%	7.71%	7.26%	7.16%	6.06%	3.88%
		12-31-76	5.44%	7.99%	7.29%	7.57%	6.07%	4.23%
		6-30-77	5.43%	8.12%	7.26%	7.54%	5.99%	4.22%
5c	Percentage of Equity Capital to Total Deposits	12-31-72	6.60%	8.12%	7.95%	7.95%	6.48%	5.46%
		12-31-73	6.30%	8.39%	8.27%	8.22%	6.89%	4.79%
		12-31-74	6.20%	8.74%	8.66%	8.50%	7.30%	4.52%
		12-31-75	6.35%	8.79%	8.57%	8.67%	7.57%	4.72%
		12-31-76	6.62%	8.92%	8.39%	9.30%	7.57%	5.23%
		6-30-77	6.67%	9.09%	8.43%	9.29%	7.61%	5.28%

1/ The sources of the data contained in this submission are the Report of Condition and the Report of Income. These consolidated reports inclu both the domestic and foreign operations of state member banks. It is important to note that both reports underwent significant change between 1975 and 1976, including changes in the definition of certain items included in this submission. For these items, therefore, pre-1976 data may not conform to data for 1976 and thereafter.

FINANCIAL DATA FOR STATE MEMBER BANKS - 1972-77
(Continued)

Question		Date	Total	0-100 Million	100-500 Million	500 Million-1 Billion	1-5 Billion	Over 5 Billion
5d	Percentage of Debt Capital to Total Capital	12-31-72	12.04%	3.31%	5.36%	11.18%	12.87%	17.91%
		12-31-73	10.12%	3.57%	5.34%	11.45%	10.90%	13.65%
		12-31-74	9.35%	3.26%	5.39%	8.18%	12.87%	11.31%
		12-31-75	9.27%	2.57%	5.09%	8.77%	12.31%	11.40%
		12-31-76	9.89%	2.24%	5.44%	9.10%	12.32%	12.41%
		6-30-77	10.04%	2.47%	6.01%	8.77%	12.08%	12.76%
5e	Percentage of Total Capital to Total Assets	12-31-72	6.28%	7.48%	7.17%	7.48%	6.13%	5.48%
		12-31-73	5.73%	7.67%	7.29%	7.62%	6.12%	4.49%
		12-31-74	5.62%	7.93%	7.66%	7.29%	6.68%	4.18%
		12-31-75	5.79%	7.92%	7.65%	7.85%	6.92%	4.38%
		12-31-76	6.04%	8.18%	7.71%	8.33%	6.93%	4.83%
		6-30-77	6.03%	8.33%	7.72%	8.26%	6.81%	4.84%
5f	Percentage of Total Capital to Total Liabilities	12-31-72	6.77%	8.16%	7.81%	8.16%	6.60%	5.85%
		12-31-73	6.14%	8.39%	7.95%	8.33%	6.59%	4.74%
		12-31-74	6.01%	8.70%	8.39%	7.94%	7.23%	4.40%
		12-31-75	6.21%	8.68%	8.37%	8.61%	7.52%	4.63%
		12-31-76	6.43%	8.90%	8.35%	9.08%	7.44%	5.08%
		6-30-77	6.42%	9.08%	8.37%	9.01%	7.31%	5.09%
5g	Percentage of Total Capital to Risk Assets	12-31-72	9.06%	10.57%	9.83%	9.73%	8.93%	3.23%
		12-31-73	8.10%	10.55%	9.67%	9.58%	8.31%	5.73%
		12-31-74	7.64%	10.62%	9.90%	9.16%	8.61%	5.94%
		12-31-75	8.30%	11.01%	10.25%	10.14%	9.39%	6.63%
		12-31-76	8.85%	11.31%	10.75%	10.83%	9.77%	7.42%
		6-30-77	8.87%	11.30%	10.65%	11.04%	10.15%	7.36%
9a	Total Loans (excluding Federal Funds) (in $ millions)	12-31-72	91,837	10,511	11,744	8,960	20,829	39,792
		12-31-73	112,244	11,556	12,722	8,294	24,275	55,397
		12-31-74	125,039	12,407	12,925	7,839	24,547	67,319
		12-31-75	120,030	12,177	12,379	7,499	23,588	64,384
		12-31-76	125,774	12,017	12,544	8,097	22,486	70,629
		6-30-77	128,778	13,119	12,617	8,853	21,395	72,793

FINANCIAL DATA FOR STATE MEMBER BANKS - 1972-77
(Continued)

Question		Date	Total	0-100 Million	100-500 Million	500 Million-1 Billion	1-5 Billion	Over 5 Billion
9b	Percentage of Total Loans to Total Deposits	12-31-72	63.08%	56.06%	60.14%	64.77%	63.78%	65.42%
		12-31-73	67.38%	59.03%	64.61%	69.57%	70.71%	68.33%
		12-31-74	68.58%	60.00%	66.27%	70.55%	73.15%	69.06%
		12-31-75	64.08%	58.43%	62.55%	67.13%	66.99%	64.19%
		12-31-76	63.10%	57.80%	58.79%	65.85%	63.65%	64.45%
		6-30-77	63.96%	60.88%	61.18%	67.68%	61.51%	65.40%
9c	Percentage of Net Loan Losses to Average Total Loans	1972	.19%	.16%	.22%	.35%	.21%	.15%
		1973	.21%	.19%	.23%	.26%	.25%	.18%
		1974	.33%	.36%	.33%	.33%	.33%	.33%
		1975	.58%	.35%	.54%	.56%	.49%	.66%
		1976	.68%	.35%	.61%	.75%	.76%	.71%
		1977 (a)	.20%	.10%	.15%	.22%	.21%	.23%
10a	Total 30 Day Average Borrowings (in $ millions)	12-31-72(b)						
		12-31-73(b)						
		12-31-74(b)						
		12-31-75(b)						
		12-31-76	24,295	277	1,063	1,278	4,895	16,781
		6-30-77	24,691	330	1,182	1,464	5,153	16,561
10b	Percentage of 30 Day Average Borrowings to 30 Day Average Deposits	12-31-72(b)						
		12-31-73(b)						
		12-31-74(b)						
		12-31-75(b)						
		12-31-76	12.94%	1.34%	5.07%	10.75%	14.37%	16.74%
		6-30-77	12.79%	1.53%	5.78%	11.57%	15.07%	15.90%
12	Total Other Real Estate (in $ millions)	12-31-72	82	15	23	12	4	25
		12-31-73	83	16	15	18	12	20
		12-31-74	210	21	29	35	36	88
		12-31-75	467	31	64	37	117	217
		12-31-76	691	29	76	61	141	381
		6-30-77	714	32	61	80	128	411

(a) 1977 net loan loss and net income data are for only the first half of the year. Therefore, these ratios are not comparable to the annual data for 1972-76.

(b) Data were not collected for this period.

FINANCIAL DATA FOR STATE MEMBER BANKS - 1972-1977
(Continued)

Question		Date		Total	0-100 Million	100-500 Million	500 Million-1 Billion	1-5 Billion	Over 5 Billion
13a	Percentage of Net Income to Average Total Assets	1972		.66%	.87%	.86%	.72%	.62%	.54%
		1973		.68%	.93%	.88%	.88%	.70%	.52%
		1974		.61%	.86%	.85%	.82%	.62%	.49%
		1975		.58%	.86%	.77%	.79%	.59%	.46%
		1976		.58%	.93%	.77%	.81%	.59%	.46%
		1977	(a)	.29%	.53%	.42%	.37%	.28%	.22%
13b	Percentage of Net Income to Average Equity Capital	1972		11.52%	11.82%	12.46%	10.52%	11.40%	11.34%
		1973		12.68%	12.61%	12.80%	13.09%	12.40%	12.74%
		1974		12.15%	11.28%	11.98%	12.05%	11.11%	13.20%
		1975		11.15%	11.08%	10.64%	11.47%	9.81%	12.07%
		1976		10.53%	11.52%	10.31%	10.49%	9.55%	10.75%
		1977	(a)	5.29%	6.45%	5.80%	4.89%	4.56%	5.16%
13c	Percentage of Net Interest Margin to Average Earning Assets	1972		2.99%	3.50%	3.58%	3.48%	2.83%	2.51%
		1973		3.08%	3.79%	3.69%	3.50%	3.10%	2.52%
		1974		3.07%	3.92%	3.99%	3.85%	3.08%	2.48%
		1975		3.06%	3.85%	4.03%	3.80%	3.26%	2.43%
		1976	(c)	3.71%	3.98%	4.12%	3.92%	3.71%	3.52%
		1977	(a)(c)	1.81%	2.02%	2.11%	1.95%	1.80%	1.67%
15	Total Standby Letters of Credit (in $ millions)	12-31-72	(b)						
		12-31-73		1,731	14	68	119	298	1,230
		12-31-74		2,501	24	85	103	254	2,032
		12-31-75		3,299	23	91	86	415	2,683
		12-31-76		3,986	19	93	69	420	3,383
		6-30-77		4,805	27	104	76	466	4,131

(a) 1977 net income and net interest margin data are for only the first half of the year. Therefore, these ratios are not comparable to the annual data for 1972-76.

(b) Data were not collected for this period.

(c) Major changes in the measurement of net interest margin substantially increased the ratios for large banks and the total for 1976-77 compared to 1972-75.

FEDERAL DEPOSIT INSURANCE CORPORATION, Washington, D.C. 20429

OFFICE OF THE CHAIRMAN

April 27, 1978

Honorable William Proxmire, Chairman
Committee on Banking, Housing and Urban Affairs
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

On March 3, 1978, we sent you various information in response to your request regarding the condition of the banking system. Enclosed is a revised Exhibit A-1 to that previous submission.

The revised exhibit presents report of condition and report of income data for State nonmember commercial banks using consolidated domestic and foreign statements. The previous report used domestic data only. In addition, we are now able, in the revised attachment, to give you year-end 1977 figures as opposed to the mid-year 1977 figures submitted previously.

It is our understanding that the Comptroller of the Currency and the Federal Reserve Board will also be submitting revised exhibits to you for the banks under their supervision.

Sincerely,

George A. LeMaistre

George A. LeMaistre
Chairman

Enclosure

EXHIBIT A-1

STATE NONMEMBER COMMERCIAL BANKS
1972 - 1977

Question		Date	Total	Total Deposits: 0-100 Million	100-500 Million	500 Million-1 Billion	1-5 Billion	Over 5 Billion
	Number of Banks	12-31-72	8,036	7,887	130	18	1	0
		12-31-73	8,248	8,070	159	17	2	0
		12-31-74	8,473	8,271	182	17	3	0
		12-31-75	8,624	8.392	210	19	3	0
		12-31-76	8,680	8,411	243	15	11	0
		12-31-77	8,773	8,449	296	13	15	0
5a	Total Equity & Debt Capital (in millions)	12-31-72	11,395	8,444	1,859	1,014	78	0
		12-31-73	13,387	9,709	2,386	1,129	163	0
		12-31-74	15,358	11,034	2,904	1,129	291	0
		12-31-75	16,975	11,982	3,316	1,318	359	0
		12-31-76	18,769	12,976	3,805	882	1,106	0
		12-31-77	21,391	14,379	4,785	721	1,506	0
5b	Percentage of Equity Capital to Total Assets	12-31-72	7.3%	7.6%	6.8%	6.0%	5.1%	0
		12-31-73	7.3%	7.7%	6.7%	6.2%	5.3%	0
		12-31-74	7.6%	8.0%	6.8%	6.1%	5.6%	0
		12-31-75	7.6%	8.0%	6.9%	6.4%	5.5%	0
		12-31-76	7.5%	8.0%	6.9%	5.7%	5.9%	0
		12-31-77	7.3%	7.9%	6.7%	5.9%	5.4%	0
5c	Percentage of Equity Capital to Total Deposits	12-31-72	8.1%	8.4%	7.7%	6.9%	6.0%	0
		12-31-73	8.2%	8.6%	7.5%	7.2%	6.1%	0
		12-31-74	8.6%	9.0%	7.9%	7.3%	7.6%	0
		12-31-75	8.6%	9.0%	7.9%	7.5%	7.3%	0
		12-31-76	8.4%	8.9%	7.9%	6.7%	6.6%	0
		12-31-77	8.2%	8.8%	7.6%	7.0%	6.2%	0
5d	Percentage of Debt Capital to Total Capital	12-31-72	5.1%	2.9%	9.0%	15.5%	16.0%	0
		12-31-73	5.9%	3.3%	10.0%	17.1%	19.9%	0
		12-31-74	5.4%	3.1%	9.5%	15.2%	17.3%	0
		12-31-75	5.3%	3.1%	8.2%	14.6%	17.6%	0
		12-31-76	5.5%	3.0%	8.0%	17.7%	17.3%	0
		12-31-77	6.0%	3.3%	8.6%	14.1%	19.4%	0

EXHIBIT A-1

STATE NONMEMBER COMMERCIAL BANKS 1972- 1977
(Continued)

Question		Date	Total	0-100 Million	100-500 Million	500 Million-1 Billion	1-5 Billion	Over 5 Billion
5c	Percentage of Total Capital to Total Assets	12-31-72	7.7%	7.8%	7.5%	7.1%	6.1%	0
		12-31-73	7.8%	8.0%	7.4%	7.5%	6.6%	0
		12-31-74	8.0%	8.3%	7.5%	7.2%	6.7%	0
		12-31-75	8.0%	8.3%	7.5%	7.5%	6.7%	0
		12-31-76	7.9%	8.3%	7.5%	6.9%	7.1%	0
		12-31-77	7.8%	8.2%	7.4%	6.8%	6.6%	0
5f	Percentage of Total Capital to Total Liabilities	12-31-72	8.3%	8.5%	8.1%	7.7%	6.5%	0
		12-31-73	8.5%	8.7%	8.0%	8.1%	7.1%	0
		12-31-74	8.7%	9.0%	8.1%	7.8%	7.2%	0
		12-31-75	8.8%	9.0%	8.1%	8.3%	8.5%	0
		12-31-76	8.6%	9.0%	8.1%	7.4%	7.6%	0
		12-31-77	8.5%	8.9%	7.9%	7.3%	7.1%	0
5g	Percentage of Total Capital to Risk Assets	12-31-72	10.7%	11.1%	10.0%	9.3%	8.8%	0
		12-31-73	10.4%	10.9%	9.5%	9.5%	9.1%	0
		12-31-74	10.6%	11.1%	9.7%	8.8%	9.0%	0
		12-31-75	10.9%	11.3%	10.1%	9.5%	9.1%	0
		12-31-76	10.8%	11.3%	10.1%	9.4%	9.3%	0
		12-31-77	10.5%	10.9%	9.8%	9.0%	9.0%	0
9a	Total Loans (excluding Federal funds) (in millions)	12-31-72	76,418	53,804	13,753	8,171	690	0
		12-31-73	91,242	62,664	18,377	8,763	1,438	0
		12-31-74	103,218	69,107	21,968	9,745	2,398	0
		12-31-75	111,344	74,431	23,565	10,301	3,047	0
		12-31-76	125,492	82,712	26,724	6,883	9,173	0
		12-31-77	150,443	96,273	35,322	5,904	12,944	0
9b	Percentage of Total Loans to Total Deposits	12-31-72	57.5%	55.3%	62.2%	65.8%	62.6%	0
		12-31-73	59.7%	57.3%	64.6%	67.6%	67.2%	0
		12-31-74	61.3%	58.2%	65.8%	73.8%	75.7%	0
		12-31-75	59.5%	57.4%	61.5%	68.2%	75.1%	0
		12-31-76	59.5%	58.3%	60.2%	63.6%	66.4%	0
		12-31-77	61.5%	60.7%	61.3%	66.7%	65.8%	0
9c	Percentage of Net Loan Losses to Average Total Loans	12-31-72	.2%	.2%	.2%	.3%	.1%	0
		12-31-73	.2%	.2%	.2%	.2%	.3%	0
		12-31-74	.4%	.4%	.3%	.4%	.3%	0
		12-31-75	.5%	.4%	.5%	.6%	.2%	0
		12-31-76	.5%	.5%	.6%	.6%	.5%	0
		12-31-77	.4%	.3%	.4%	1.0%	.5%	0

EXHIBIT A-1

STATE NONMEMBER COMMERCIAL BANKS 1972 - 1977
(Continued)

Question		Date	Total	0-100 Million	100-500 Million	500 Million-1 Billion	1-5 Billion	Over 5 Billion
10a	Total 30 Day Average Borrowings (in millions)	12-31-72	1,281	428	331	437	85	0
		12-31-73	2,050	809	599	547	95	0
		12-31-74	3,236	1,082	1,254	667	233	0
		12-31-75	3,194	976	1,471	662	85	0
		12-31-76	3,672	941	1,599	829	303	0
		12-31-77	4,799	1,165	1,984	789	861	0
10b	Percentage of 30 Day Average Borrowings to 30 Day Average Deposits	12-31-72	1.0%	.4%	1.5%	3.5%	7.7%	0
		12-31-73	1.3%	.7%	2.1%	4.2%	4.4%	0
		12-31-74	1.9%	.9%	3.8%	5.1%	7.4%	0
		12-31-75	1.7%	.8%	3.8%	4.4%	2.1%	0
		12-31-76	1.8%	.7%	3.6%	7.8%	2.0%	0
		12-31-77	1.9%	.7%	3.1%	8.6%	4.4%	0
12	Total Other Real Estate (in millions)	12-31-72	127	102	17	8	0	0
		12-31-73	152	118	23	8	3	0
		12-31-74	226	168	40	12	6	0
		12-31-75	410	259	115	30	6	0
		12-31-76	508	289	169	34	16	0
		12-31-77	541	280	180	40	41	0
13a	Percentage of Net Income to Average Total Assets	12-31-72	.9%	.9%	.9%	.9%	.4%	0
		12-31-73	1.0%	1.0%	.9%	.8%	.6%	0
		12-31-74	.9%	1.0%	.8%	.8%	.8%	0
		12-31-75	.8%	.9%	.7%	.9%	.4%	0
		12-31-76	.9%	.9%	.8%	.6%	.7%	0
		12-31-77	.9%	1.0%	.8%	.4%	.8%	0
13b	Percentage of Net Income to Average Equity Capital	12-31-72	12.0%	11.5%	13.4%	14.8%	7.8%	0
		12-31-73	13.0%	12.9%	13.6%	13.1%	12.7%	0
		12-31-74	12.2%	12.2%	12.0%	12.4%	13.9%	0
		12-31-75	10.9%	10.9%	10.5%	13.7%	6.2%	0
		12-31-76	11.1%	11.3%	10.8%	9.5%	12.1%	0
		12-31-77	12.0%	12.1%	12.2%	6.5%	13.7%	0

STATE NONMEMBER COMMERCIAL BANKS 1972 - 1977
(Continued)

Question		Date	Total	0-100 Million	100-500 Million	500 Million-1 Billion	1-5 Billion	Over 5 Billion
13c	Percentage of Net Interest Margin to Average Earning Assets	12-31-72(a)	.0%	.0%	.0%	.0%	.0%	0
		12-31-73	4.0%	4.0%	4.1%	3.4%	6.4%	0
		12-31-74	4.1%	4.2%	4.0%	3.7%	4.9%	0
		12-31-75	4.0%	4.0%	4.1%	4.6%	2.2%	0
		12-31-76	4.2%	4.1%	4.3%	3.5%	4.8%	0
		12-31-77	4.2%	4.2%	4.3%	3.3%	5.1%	0
15	Total Standby Letters of Credit (in millions)	12-31-72(a)	0	0	0	0	0	0
		12-31-73(a)	0	0	0	0	0	0
		12-31-74(a)	0	0	0	0	0	0
		12-31-75(a)	0	0	0	0	0	0
		12-31-76	1,635	256	1,163	63	153	0
		12-31-77	938	282	281	74	301	0

(a) Data not collected for this period.

THE LIBRARY OF CONGRESS

Congressional Research Service

WASHINGTON, D.C. 20540

May 22, 1978

TO : The Senate Committee on Banking, Housing and Urban Affairs
Attention: Lindy Marinaccio

FROM : Economics Division

SUBJECT : Definition of "Net Interest Margin as a Percent of Average Earning Assets."

The ratio "Net Interest Margin as a percent of Average Earning Assets" is derived from banks' reports of income and condition. It can be generally described as the difference between interest income and interest expense divided by average total assets.

In greater detail, however, "Net Interest Margin as a percent of average Earning Assets" is one hundred times the fraction the denominator of which is the sum of the following items, 1/

interest and fees on loans,
interest on balances with banks,
income on Federal funds sold and securities purchased under agreements to resell in domestic offices,
interest on U.S. Treasury securities,
interest on obligations of other U.S. Government Agencies and corporations,
interest on other bonds, notes and debentures,

1/ Definition supplied by Dr. Konstas, Federal Deposit Insurance Corporation.

dividends on stock,
income from direct lease financing;

less the sum of the following items,

interest on time certificates of deposit of $100,000, or more issued by domestic offices,
interest on deposits in foreign offices,
interest on other deposits,
expense of Federal funds purchased and securities sold under agreement to repurchase in offices,
interest on other borrowed money,
interest on subordinated notes and debentures;

and the denominator of which is the average of total assets as of five points in time, the ends of the previous year, the first, second and third quarters and the end of the year for which the fraction is being computed.

As you will have noted, this fraction does not reflect the operating expense incurred as a result of lending activities nor does it reflect the tax status of interest received. As such it is of limited usefulness in comparing different banks which may have a different mix of assets in their investment portfolios.

Curtiss Martin
Analyst in Money and Banking

cbf

United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
WASHINGTON, D.C. 20510

December 15, 1977

The Honorable Arthur F. Burns
Chairman
Federal Reserve System

The Honorable George LeMaistre
Chairman
Federal Deposit Insurance Corporation

The Honorable John Heimann
Comptroller of the Currency

Gentlemen:

Pursuant to Chairman Burns' suggestion, last March this Committee held its first periodic hearing on the condition of the banking system. This Committee found the record developed during those hearings to be most useful in its legislative and oversight functions.

I believe that it would be in the public interest to continue such hearings on the condition of the banking system at least once in each year. Accordingly, sometime in March 1978 this Committee intends to conduct the Second Hearing on the Condition of the Banking System.

In preparation for the hearings, I suggest that the following statistical data be supplied to the Committee separately stated for national banks, state member banks, bank holding companies and insured non-member banks for banks with deposits of over \$5 billion, \$1 billion to \$5 billion, \$500 million to \$1 billion, \$100 million to \$500 million, and \$50 million to \$100 million.

1) A list of each category of banks and problem banks utilized by each of your agencies in the exercise of regulatory or supervisory jurisdiction, along with a detailed description of the characteristics which are considered in categorizing any particular institution into each such category. Pertinent copies of rules or manuals should be supplied. All additions and deletions to such categories utilized during the past five years should be specifically set forth.

2) The number of banks which each of your agencies placed in each such category as of January 1, 1976, July 1, 1976, January 1, 1977, July 1, 1977, and January 1, 1978 along with the combined assets and combined deposits of all such banks in each such category (including of course, composite categories 3 and 4 which are the problem bank categories).

3) The number of banks moving into and out of each category on each date along with their total assets and deposits.

4) The number of days institutions in each category borrowed from the Federal Reserve and the amount of their average daily borrowings. State the purpose of such borrowings, including whether such borrowings were primarily undertaken for supervisory purposes.

5) The total equity and debt capital of all such banks. Further, equity capital expressed as a percentage of total assets and total deposits; debt capital expressed as a percentage of total capital; total capital expressed as a percentage of total assets and total liabilities (exclusive of capital); and total capital expressed as a percentage of risk assets.

6) A statement of the policy and procedures of each of your agencies which insure compliance by banking institutions with the terms of disciplinary standby agreements entered into by foreign countries with the International Monetary Fund. Copies of manuals or rules should be supplied along with a sampling of such IMF agreements and a list of all countries in which such agreements are in effect.

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7) Aggregate assets classified by examiners as substandard doubtful, loss and specially mentioned along with the average assets classified by examiners for banks in each category including a separate breakdown for domestic and foreign operations.

8) Classified assets expressed as a percentage of total capital in the aggregate and averaged for banks in each category including a separate breakdown for domestic and foreign operations.

9) Aggregate loans made by banks in each cateogry along with the loan to deposit ratio's of banks in each such category; and the ratio of net loan losses to total loans including a separate breakdown for domestic and foreign operations, separately stating data for countries under disciplinary standby agreements with the IMF.

10) The average overnight borrowings of banks in each category (including Federal funds) along with the percentage of gross borrowings to deposits.

11) Aggregate securities held by such banks (stated for local, state and Federal) along with the acquisition value and market values of all such securities.

12) The dollar volume of property held by such banks as a result of unpaid loans along with the amount of loans originally extended on such property and the current market values of such property and the valuation of such properties on the books of such banks. State whether such property has been held for 1, 2, 3, 4, or 5 years.

13) Aggregate income for banks in each such category expressed as a percentage of assets including a breakdown for domestic and foreign operations.

14) State the volume of loans made by such banks to:

a) officers,

b) directors,

c) stockholders holding 10 percent or more of the stock of such banks, and

d) companies which are owned or controlled by any such individual under (a), (b), (c) and loans to their families.

15) The dollar volume of commitments undertaken by such banks including, and separately stating, a figure for standby letter of commitments.

16) The number of cease and desist cases recommended by examiners and the number of cease and desist actions undertaken under the Financial Institutions Supervisory Act of 1966 against (a) banks and (b) individuals with a short description of each.

17) The number of violations of law uncovered by examiners, the laws violated and the actions undertaken to cure the violations.

18) The number of banks which failed along with their total assets and deposits and a description of the specific causes of failure in each case. The name of each failed bank should be supplied.

19) The number of banks which were the subject of mergers or holding company acquisitions to avert a failure or for some other supervisory reason. Supply the total assets and deposits of such banks along with their names and the specific deficiency in each case.

I suggest that the oversight hearing on the health of the banking system be held in the first quarter of 1978, as soon as practical after the data requested herein becomes available. During the interim our respective staffs should review the matter together with the idea of developing additional data which further analysis may show to be valuable to make the hearings complete. I would appreciate your staffs contacting Mr. Lindy Marinaccio, Special Counsel to this Committee, at an early date in this regard.

Coordination among all three agencies will ensure a standard reply format. I understand that the FDIC has on its computer much of the data requested herein for all banks. A single reply prepared by the FDIC from its data may facilitate the standard format. Much of this information was supplied last year and needs only to be updated. In supplying the information, I suggest that separate replies be made to each question setting out data going back five years so that trends and comparisons may be made.

I thank you in advance for your cooperation with the work of this Committee on these hearings.

Sincerely,

William Proxmire
Chairman

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

G. WILLIAM MILLER
CHAIRMAN

June 9, 1978

The Honorable William Proxmire
Chairman
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D. C. 20510

Dear Chairman Proxmire:

In response to your letter of May 25, enclosed are my responses to the written questions you submitted for inclusion in the record of the hearing on the condition of the banking system held on May 25.

In my view these are very important and useful oversight hearings which complement the legislative responsibilities of your Committee.

Best regards,

Sincerely,

Bill

Enclosure

The following are the statements and questions posed in Chairman Proxmire's letter of May 25 in connection with the hearings held on that day on the condition of the banking system and Chairman Miller's responses:

Chairman Proxmire: You point out correctly that bank capital ratios have declined steadily since World War II. Bank capital among the larger banks has dropped most precipitously. You also point out that banks have relied principally on retained earnings to build up their capital. Obviously this source of funds has not been adequate.

Question: Shouldn't banks be encouraged by the regulators to go to the equity capital markets even if it results in dilution of ownership? What is the primary duty of the regulatory agencies: to protect the public or to protect existing stockholder patterns?

Answer: The Board believes that banks should maintain adequate capital in order to assure the maintenance of a sound banking system. Accordingly, the Board in recent years has encouraged numerous banking organizations to raise equity capital. During 1976 and 1977 banking organizations raised substantially more equity capital than during any two-year period for which we have records.

While the Board will continue to encourage banks to build up equity capital in order to support asset growth, there are practical limits to how much equity banks can be expected to raise so long as market conditions remain unfavorable. If banking organizations are forced to raise very large amounts of equity at unfavorable prices, investors will become increasingly disillusioned in bank stocks. This development would raise the cost of equity capital even higher than at present, making it all the more difficult for banks to build up capital.

Chairman Proxmire: In discussing the Fed membership problem on Page 6 of your statement, you note that bank deposits held by member banks has dropped from 77 percent to 72 percent. You make the argument that implementation of monetary policy becomes more difficult as the Fed loses members.

Question: What is the rock bottom percent of bank deposits that must remain Fed members in order for implementation of the Fed's monetary policy to remain viable and effective?

Answer: It is difficult to give an exact percentage of bank deposits held by nonmembers that will render monetary policy ineffective. It is clear, however, that the effectiveness of policy declines as the percentage rises. For example, as the per cent of deposits held by nonmembers rises the relationship between bank reserves and bank deposits weaken. Unexpected deposit flows between member and non-member banks create heightened variability in the money stock. For example, deposit flows from member banks to nonmember banks tend to increase nonmember reserves in the form of correspondent balances. On the basis of such increases in balances of nonmember banks, these institutions can expand their deposits. As a result, the linkage between member bank reserves--which the Federal Reserve can control--and the money stock is weakened.

Staff research suggests that the influence of nonmember banks will result in an error of monthly growth in M-1, given bank reserves, within a range of about 4 percentage points (annual rate) two-thirds of the time--and within a range of about 8 percentage points 95 per cent of the time--at the present-day .72 ratio of member to total deposits. A continuing reduction in this ratio produces a continuing increase in the M-1 error. For example, when the ratio is .5, the range of M-1 error is approximately 7 percentage points two-thirds of the time; when the ratio is .3, the M-1 range of error equals 9-1/2 percentage points. If all member banks with deposits less than $2 billion were to leave the System, the ratios of member to total deposits would be about .5.

Declining membership also means that more banks lose their ready, direct access to the discount window. Such access tends to cushion the impact on the banking system of a tightening monetary policy by providing individual banks with time to undertake orderly adjustments of their loan and investment policies. Thus, the more banks that are outside the System, the greater the chance of an undesirably sharp and disruptive response to monetary tightening and, therefore, the more difficult and complex is the process of restraining monetary growth.

FOLLOW-UP ON MEMBERSHIP

Chairman Proxmire: You state that erosion of Fed membership threatens to weaken the financial system. You make several points to which I would like to question closely for the record.

Question (1): You point out that more and more of the Nation's payments and transactions are handled outside the "safe" channels of the Federal Reserve. Are you charging that private inter-bank clearing systems are not "safe" and that the government needs to retain a monopoly on the payments system? Wouldn't separate pricing for Fed services encourage private systems and result in greater efficiency?

Answer: The present payments system, including private inter-bank clearings, is quite safe. The Federal Reserve System does not now possess a monopoly in the payments system, and there is no apparent need for the Government to create such a monopoly to maintain a safe system. But the safety to the system is enhanced because the Federal Reserve has a considerable operational presence in the payments system. This avoids "pyramiding" of correspondent balances as well as other sources of possible instability.

Reserve balances held at Federal Reserve Banks are used by member banks to settle for their daily transactions and for the transactions of their respondent bank customers. If reserves were not able to serve this function, balances would have to be held with correspondent banks for this purpose. This settlement function is more efficient the more respondents are served by a single, large correspondent. Thus, there is a tendency for "pyramids" of banks to form. Insolvency of an important bank at or near the apex of such a pyramid would immobilize the settlement balances of numerous banks lower in the pyramid, which could lead to dangerous illiquidity for these respondent banks. There, of course, is no such risk of insolvency when settlement balances are held at Federal Reserve Banks. Federal Reserve clearing channels are in this sense inherently "safer".

Settlement balances at a correspondent bank simultaneously serve the additional purpose of compensating the correspondent for operational services provided to the respondent bank. The operational role of the Federal Reserve in the payments system parallels this practice, providing some inducement for commercial banks to hold risk-free settlement balances at Reserve Banks. Another portion of reserves held serve to compensate for operational services provided by the Federal Reserve Banks in the same way that correspondent balances do. However, reserves required of member banks are almost twice as large as would be required by a correspondent bank for settlement and compensation purposes.

Pricing of Federal Reserve services can be expected to promote greater efficiency in use of payments services generally, since users will have an explicit cost basis for judging the value of Federal Reserve services relative to alternative sources or relative to the return to the user on these services. But while pricing of services will work toward a more efficient payments mechanism, the Federal Reserve must also give due regard to the need to maintain a satisfactory basic level of services for the nation as a whole.

Question (2): You point out that a national presence in bank supervisory and regulatory functions becomes diluted as the Fed loses members. But isn't it true that the FDIC still insures these banks and thus a national presence is retained?

Answer: Federal Reserve supervisory interest in, and regulation of, member banks extends beyond an interest in ensuring that depositors below a certain size do not suffer losses. The Federal Reserve is responsible for ensuring that the nation's payments media are "elastic", functioning efficiently and effectively to support the nation's commerce. The Federal Reserve takes action both through regulation and through its operational presence in the payments mechanism to further this goal. And the Comptroller of the Currency, of course, charters and supervises national banks, which also must be members.

Elimination of both the Federal Reserve and the Comptroller clearly dilutes a national presence. Moreover, the Federal Reserve's "national presence" in bank supervisory and regulatory functions cannot be readily separated from its job of conducting national monetary policy. Regulatory changes can have important implications for monetary policy--for example, rules that require banks to raise their capital ratios increase the demands on capital markets by banks and may also slow the rate of growth of bank credit, or reduce the availability of bank funds to particular borrowers. In general, a Federal regulatory policy involving both the Federal Reserve and the Comptroller promotes a more equitable and balanced banking structure and also fosters more effective coordination of monetary and regulatory policies.

Question (3): You point out that fewer banks have access to the Fed's discount window. But FDIC insurance is there to protect the depositor. Loss of access to the discount window may be a net benefit because banks could exert greater self-discipline on themselves without such [protection] access.

Answer: FDIC deposit insurance serves somewhat different purposes from those of the Federal Reserve discount window; both are necessary for maintaining a safe and efficiently functioning banking system. Deposit insurance protects the deposit customer, especially smaller, unsophisticated depositors. In addition, and in a manner similar to that of the discount window, deposit insurance acts to promote general confidence in the banking system, thus reducing the possibility that difficulties at one bank will lead to a general "run" on all banks.

In contrast to deposit insurance, however, the discount window is concerned to a large extent with ensuring the continued smooth operation of the banking system by providing adjustment credit and easing the effects on individual banks of macro-economic stabilization actions.

First, the discount window provides member banks with a source of funds to meet unexpected withdrawals or demands for credit. This "adjustment credit" ensures that ordinary, though unpredictable, flows of funds throughout the economy do not threaten the stability of the banking system. In addition, of course, the window provides adjustment credit when extraordinary events occur in the economy, as in the case of the Penn Central bankruptcy. Deposit insurance does not provide such a source of funds, and, therefore, it cannot be expected to substitute for the discount window in these situations.

The second major role of the window is to provide individual banks with liquidity at those times when general stringency exists in the credit markets. By borrowing at the window a bank can temporarily relieve some of the liquidity pressure and will gain time to make orderly adjustments in its lending policies; thus access to the window provides a "safety valve" for individual institutions. Deposit insurance cannot serve this purpose.

It is important to note that the private market cannot easily perform the discount window's functions. For example, for a bank suffering a liquidity crisis, alternative forms of short-term credit, such as Fed funds, may become unavailable at precisely the time they are needed most. The private market is not able at the present time to provide substantial amounts of liquidity to troubled institutions. And in times of general stringency, the private banking system may be incapable of mobilizing the needed amount of funds.

Finally, in administering the window, it is not the Federal Reserve's objective to protect a bank's creditors or shareholders from the consequences of unwise management decisions and thereby reduce the bank's incentive to exert self-discipline. Of course, in the absence of a facility providing adjustment credit and affording a way for an individual bank to obtain relief from the most serious consequences of tightening credit, banks would have to be somewhat more cautious, conservative, and more liquid than they now are. Such conservative behavior, however, would not be clearly a net social benefit. Banks would probably hold more idle reserves, and would be compelled to pass up some lending opportunities that seemed unduly risky under the circumstances; loans to small businesses might well be a disproportionately large share of these opportunities. Moreover, banks would invest a greater portion of their assets in Treasury and other readily marketable securities, thereby reducing the proportion of assets lent in their communities for housing, business development, and other purposes that customarily involve longer-term loans or loan commitment. Therefore, we believe that, on net, the window protects the public interest by minimizing possible harm to the local and/or national economy, and to the payments mechanism, that can stem from the illiquidity of individual banks.

Question (4): You point out that implementation of monetary policy becomes more difficult. But uniform reserves for all banks for monetary policy reasons need not carry with it Fed membership and Fed supervision and regulation.

Answer: Universal reserve requirements would be a significant step toward improving the Federal Reserve's control over the monetary aggregates, particularly if all required reserves were held in the form of deposits with the Federal Reserve or currency and coin, as is currently the case for member banks. Nevertheless, Federal Reserve membership would still be important since direct access to the discount window tempers the impact of monetary disturbances on the monetary aggregates and the availability of bank credit and may at some point aid in averting a monetary crisis. Moreover, a Federal Reserve presence in the payments process is vital for assuring a stable payments mechanism and in reducing the likelihood of disruptions occurring which could adversely affect the monetary aggregates and bank credit.

Questions: You've stated that "a few countries are having difficulty servicing their debts to U. S. banks," but actual defaults have been rare. Has Zaire defaulted on its debt to U. S. banks, that is, are there delinquencies on payments? Peru? Turkey? Zambia? Jamaica? Gambia?

What troubles me is that in many cases countries use the risk of default, and even actual non-payment, to extort new credits or restructure existing credits. Some of these countries are running a giant Ponzi scheme, getting ever larger loans to repay loans, but there is almost no incentive for the banks to avoid what are essentially bad loans.

How do the banks carry credits to Zaire, Peru, Turkey and these other countries on their books? Are they required to write off or write down these loans when payments are delinquent? Are the banks required to tell their stockholders about loans which are not paid on time? Do the Federal bank regulatory agencies classify assets which are not paid on time? How do you treat restructured credits? How about the arrearages in Zaire?

Answers: It is a well-publicized fact that Zaire has been unable to meet the payments on most of its external debt to banks. The other countries mentioned (except Gambia) are also having economic difficulties affecting their ability to service external debt, but the seriousness of those difficulties varies widely.

In appraising country risk situations it is important to remember that, regardless of the overall condition of the country, the status of individual credit within that country may differ significantly. Countries always have some foreign exchange coming in which can be allocated to repaying their debts. Thus, depending on a country's priorities, some foreign debts may be serviced promptly while others are allowed to become past due. Also, some borrowers may have external income with which to service their foreign currency debts.

While countries, like individual borrowers, may use the threat of default to obtain relief from their creditors, there is no indication that banks are granting ever increasing amounts of credit to countries which are experiencing difficulties. December 1977 data show that outstandings to the countries mentioned were either about the same or below the amounts outstanding in June 1977. Most countries experiencing difficulties are in the process of negotiating with commercial bank creditors, the IMF, and official creditors in order to resolve current difficulties and service their outstanding debts. In these negotiations, banks have been insisting upon the establishment of an IMF stabilization agreement and maintenance of eligibility to draw on an IMF stand-by facility as a precondition for a general restructuring of outstanding credits or granting new loans. For example, in the case of Zaire, major banks have offered the country a credit to finance essential imports conditioned upon: (1) eligibility to draw upon higher credit tranches from the IMF; and (2) elimination of arrearages of interest and principal on outstanding credits made by lending banks.

The way banks carry credits on their books is related to the performance of the individual credit and since, as noted above, individual credits to countries vary in this regard, it is not possible to give specific details on the status of current credits. In general, however, banks do not charge off their outstanding loans until a portion of them are deemed uncollectible. Nevertheless, when some loans are in a troubled status, a bank may as a precaution raise the amount of loan loss reserves it sets aside to cover future loan charge-offs. Most banks also have a procedure whereby, if payments on a loan are more than a certain number of days past due, interest on the loan is no longer accrued. When credits are placed in such a non-accrual status, previously accrued interest is reversed and interest is only taken into income when payment is actually received.

SEC guide 61 requires that loans more than 60 days past due be reported to shareholders as "non-performing credits". An example of the information disclosed to investors is shown in the enclosed excerpt (Attachment 1) from a prospectus filed by BanCal Tri-State Corporation.

When a country is not meeting the terms of its bank loans or when a disruption in payment seems imminent, Federal Reserve examiners have been instructed to carefully review lending to that country to determine whether credits should be criticized or classified. However, examiners do not automatically classify

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credits, public or private, domestic or foreign, simply because payment is delinquent. At the same time, the fact that a loan is current does not exempt it from classification. Rather, payment status is one of several factors an examiner takes into consideration in looking at the circumstances of each loan and each borrower to determine whether a loan exposes the bank to undue risk. This also applies to renegotiated credits. Here though, if a loan has been renegotiated because a borrower was unable to service the loan, an examiner would be biased in favor of classification unless there was evidence of changes that indicated that the borrower would be able to service the new loan.

It is not Federal Reserve practice to disclose individual loan classifications. However, examiners have in the past and continue to classify some credits to public or private residents of certain countries because of transfer risk arising from the country's apparent inability to generate the foreign exchange necessary to service its foreign debts.

Question: You've noted the reduced spreads between the cost of funds and international loans -- so-called "Eurocredits" -- why are banks continuing to make loans when the spreads are so low (5/8 percent)? Do we have a case where the banks are full of money deposited by OPEC countries and faced on the other side with demands from LDCs which the banks for political reasons cannot resist?

Answer: Declining spreads - Absence of strong demands for bank credit from borrowers in major industrial countries combined with aggressive competition for international loan business from foreign banks have been important factors in the recent decline in spreads on syndicated Eurocurrency credits. Many U. S. banks have resisted these declines and have been reluctant to participate in loans to foreign governments that carry spreads below certain minimum levels. Governor Wallich has recently made a speech in which he commented on developments in loan spreads on Eurocurrency credits. (Attachment 2)

There is no direct link between OPEC deposits and the decision by banks to participate in credits to borrowers in LDCs. Banks have numerous sources of liquidity including deposits and funds obtained from interbank markets. Moreover, banks have a wide range of earning assets in addition to loans to developing countries, and it is not possible to "pair up" particular assets in any bank's portfolio with any specific source of funds.

Chairman Proxmire: There has been increasing tendency for large multinational corporations to place deposits with off-shore banking centers. Such deposits evade Federal Reserve reserve requirements, and the deposits are not included in your measured money stock.

Question: Can you accurately measure and monitor the shift of funds between domestic banks and off-shore branches or subsidiaries?

Are those funds completely or only partially outside of the Federal Reserve's controls?

Answer: The Federal Reserve collects reports from foreign branches of member banks that include adequate information on their loans to and deposits from U. S. customers, and the Federal Reserve places reserve requirements on deposits of foreign branches of member banks to the extent that these deposits are used to fund U. S. customers, including the domestic offices of the same bank.

In comparing domestic monetary aggregates with dollar deposits held abroad by U. S. investors, one should include all Euro-dollar deposits, and not merely those held with foreign affiliates of U. S. banks. The attached table (Attachment 3) shows dollar-denominated deposits to U. S. nonbank customers of banks in the principal foreign financial centers. These deposits have large denominations, and frequently have fixed maturities. Thus, they closely resemble large domestic certificates of deposit (CDs), and growth in Euro-dollar deposits should generally be assessed in comparison to growth in the broad domestic monetary aggregates (M-4 and M-5) which include domestic CDs.

Data in the table show that Euro-dollar deposits held by U. S. residents amount to about 1 per cent of M-4. Moreover, growth in Euro-dollar deposits has been small relative to the growth in M-4. Thus, Euro-dollar deposit holdings of U. S. customers do not now appear to be important in comparison to domestic monetary aggregates.

Chairman Proxmire: Banks sometimes use so-called "managed liabilities" to supplement funds obtained through regular deposits. At the end of 1976 banks had some $70 billion in Federal funds purchased and securities sold under repurchase agreement. As I understand repurchase agreements, the bank would sell a security to a customer in the evening and buy it back the next morning. The customer earns interest; the bank obtains funds.

Question: Do you know the total of such "repurchase agreements", and do you take them into account when you measure total deposits included in the money stock?

What effect do such arrangements have on the liquidity of the banking system?

Answer: According to a recent System survey--the results of which are attached (Attachment 4)--the volume of repurchase agreements (RPs) against U. S. Government and agency securities for 46 very large banks was $22 billion in early December 1977. About 15 per cent of this amount represented borrowing from other commercial banks (see Table 1 of the enclosure), while the bulk of the remainder was transacted with businesses and state and local governments. The survey indicated that roughly half of all RPs were of a one-day maturity or were under continuing contracts (i.e., they had no specified maturity and did not require advance notice by either party to terminate). The Board staff estimates that these large banks account for roughly 60 to 65 per cent of all commercial bank RPs and thus the total volume of commercial bank RPs was about $35 billion in December 1977.

Commercial bank RPs are a nondeposit liability and consequently are not included in standard measures of the money supply. Many have suggested that the growth of RPs in recent years may have affected the public's demand for money and some have argued for including RPs in a measure of the money stock. The Board's staff has been studying this issue very carefully during the past year.

By using Treasury securities as collateral for RPs, such securities cannot be liquidated by banks for meeting unexpected cash needs. However, growth of liquid asset holdings of large banks have outstripped that of RPs in recent years. For example, from April of 1974 to December of 1977 the growth in RPs at the 46 very large banks about matched the increase in their holdings of Treasury and agency securities, while their holdings of other liquid assets expanded apace. Thus, the unencumbered liquid assets position of these large banks improved over this period.

Chairman Proxmire: Some banks establish their prime lending rate by formulas that use the commercial paper rate plus a 1% or 1-1/2% mark-up. Prior to 1974 the spread between the two rates was almost always less than 1%. Since then the spread has been 1% or more. It seems to me that a basic change took place in the market for loans to "prime" borrowers.

Question: Why has the prime rate been maintained at an artificially high rate, and has this had adverse consequences for loans to purchase plant and equipment during the current recovery?

Answer: The relationship between commercial banks and their business customers is a multifaceted and very complicated one, involving such features as deposit balances, credit services, and cash management services. As a consequence, the change in the spread between the prime rate and the commercial paper rate is difficult to interpret, since it is not clear that elements of the package other than the loan rate have remained the same over the recent period.

For instance, it is possible, as some allege, that firms have demanded more noncredit services, particularly cash management services, as compensation for their demand deposits, implying that they may be less interested in receiving compensation in the form of an attractive prime rate on credit services. Furthermore, it has been suggested that some large money center banks have intensified their efforts to attract the loan business of those firms other than the highest rated ones, by adding to the number of firms that qualify for the prime rate and by narrowing the spread over prime for some others. In this connection, there is evidence indicating that below prime lending by large banks to large corporations with the best alternative sources of funds has been growing, suggesting a partial deterioration of the prime rate convention for these customers. According to the Board's new Survey of Terms of Bank Lending, 13 per cent of the dollar volume of short-term business lending of 48 large banks was below prime in February of this year, in contrast to 7 per cent last year.

In sum, because of the many dimensions to the customer relationship, it is not clear that the loan rates have been artificially high in recent years. Moreover, given that business loan growth at all commercial banks has recently been comparable to some of the strongest growth rates of previous expansions--and in view of apparent limited borrowing from banks by very large firms who have alternative sources of credit that are less expensive than bank sources--it would not seem that bank lending terms are restraining loans to purchase plant and equipment.

Attachment 1

In the preceding table, $16.0 million of the $263 million of loans to or guaranteed by banks at December 31, 1977 were loans to commercial banks in Turkey. At December 31, 1977, $1.7 million of such loans had been placed on non-accrual. Subsequent to December 31, 1977, an additional $6.8 million were placed on non-accrual.

One risk factor of international lending is that the borrower may be credit-worthy in terms of local currency but that the foreign exchange reserves of the borrower's central monetary system may not be sufficient to enable the borrower to obtain the foreign currency necessary to repay the loan. The $8.5 million of loans to commercial banks in Turkey placed on non-accrual have been repaid in a timely fashion by the borrowing banks to the Central Bank of Turkey in Turkish lira. The non-accrual status results from the present inability of the Central Bank of Turkey to obtain the necessary foreign currency. In management's opinion, no loss of principal will occur on these loans; however, some restructuring of these loans may occur relating primarily to the extension of maturities. Payments on the remaining $7.5 million in loans to commercial banks in Turkey, which have direct access to foreign currency, are being made to the Company on a timely basis. All of the $16.0 million of loans to commercial banks in Turkey mature on or before February, 1979.

The distribution of the Company's loans attributable to foreign operations by annual per capita income level of the country of domicile of the guarantor or borrower, with classifications of countries derived from International Bank for Reconstruction and Development data, at December 31, 1976, and 1977, is as follows:

	December 31, 1976	December 31, 1977
	(In Millions)	
Developed countries	$187	$198
Oil exporting countries	37	35
Less developed countries:		
Higher Income ($500 and over per capita)	130	166
Middle Income ($200-$499 per capita)	26	61
Lower Income (Less than $200 per capita)		
Total	$380	$460

Distribution of Selected Liabilities Attributable to Foreign Operations

The following table presents deposits and borrowings attributable to foreign operations based upon the depositors' business classification at December 31, 1976, and 1977.

	December 31, 1976	December 31, 1977
	(In Millions)	
Deposits:		
Banks	$293	$239
Governments or official institutions	48	58
Other	41	122
Total	$382	$419
Borrowed funds		$ 9

Revenue and Income from Foreign Operations

Due to the integrated nature of the Company's foreign and domestic operations, it is impossible to segregate with precision the respective contributions to income from foreign and domestic operations. Accordingly, certain estimates and assumptions have been used in the compilation of data presented. These estimates and assumptions include an allocation of the cost of deposits and borrowed funds at actual market rates, an allocation of expenses incurred in domestic operations on behalf of international operations and an apportionment of the provision for loan losses. No allocation of capital has been made. The distinction between domestic and foreign operations is in part arbitrary in that foreign operations include activities recorded in both the foreign and domestic offices of the Bank's International Group. Subject to the above limitations, presented below is an estimate

ATTACHMENT 2

INTERNATIONAL LENDING AND THE EUROMARKETS

Remarks by

Henry C. Wallich
Member, Board of Governors of the Federal Reserve System

at the

1978 Euromarkets Conference

sponsored by the

Financial Times

London, England

Tuesday, May 9, 1978

The Euromarkets are one of the success stories of our day, which needs a few successes. In difficult times, they have helped to keep trade flowing, they have financed investment and development, they have enabled countries to deal with their balance-of-payments problems. The Euromarkets serve as a reminder of what a market system can achieve when it is allowed to operate freely.

But the Euromarkets also have been a cause for concern from time to time. Supervisors, commercial bankers, central bankers, and perhaps even the public have worried periodically about the soundness of the Eurobanks, the soundness of the Euroborrowers, and the possible inflationary implications of the market. Perhaps this worrying has helped to forestall the problems. In a well-functioning market, crises worried about in advance usually do not occur. By not dealing with these matters here I do not mean to imply that grounds for worry have been altogether eliminated. First and foremost, however, the subject to worry about today in the syndicated loan market is spreads. Many of you probably are of the same opinion. What my remarks may lack in novelty I hope they can make up by being emphatic.

Euromarket Spreads

The dramatic decline in spreads between lending rates and the cost of money is not altogether unprecedented. In 1972-73, spreads also were severely squeezed. For a spectrum of 15 major borrowing countries, they reached an approximate low, on a weighted average basis, of 1.11 per cent in the fourth quarter of 1973. That was a time of dangerous euphoria when international indebtedness was much lower than it is today, the expansive forces of the international economy much stronger, and when one could not anticipate the financing problems that were to follow the rise in the price of oil.

In 1974, spreads expanded once again as the realization of risk in Euromarkets, following the Herstatt and Franklin failures, pushed risk premia to more realistic levels. By the fourth quarter of 1975, they reached a level of 1.63 per cent and remained approximately on that plateau through the middle of 1977. More recently, however, spreads once more have been cut to the bone by lessened balance of payments financing needs and the pressure of strong competition among banks resulting from slack loan demand in home markets, and by a large inflow of funds.

For particular groups of countries, the time pattern varied somewhat, with those for non-OPEC LDCs rising through 1976 and those for small OECD countries declining appreciably after 1975.

Naturally, there are always special circumstances that could explain low spreads on particular loans. At the short end, a one-shot deal at a very low spread, in the hope of being able to employ the funds more productively later, may be preferable to locking them in for a longer period at a not much better return.

At the longer end, there may be considerations of collateral business, ongoing relationships with the borrowing country, hopes of regulatory preferment in winning approval for branches and the like that may explain, although not justify, extraordinarily low margins. There are fees, especially for lead banks, there may sometimes be balances, and sometimes banks can fund a quarter or even a helf of a per cent below Libor (London Interbank Offering Rate), especially if they are prepared to do a little mismatching of maturities. On the other hand, I would not accept a bank's explanation of an unjustifiably low spread on the grounds that the bank had to maintain its share of the market. The implication that because some banks overlend, all others ought to do the same obviously points toward trouble.

The Composition of the Spread

I would, if I may, devote a few minutes to a conceptual exercise in studying the anatomy of a spread. The spread must cover at least three elements: (1) The risk premium to cover losses,

(2) the contribution to the bank's cost of capital related to the loan, and (3) the out-of-pocket and overhead operating costs.

The risk premium must be evaluated for each individual loan in the light of the circumstances of the borrower. An overall indication of loss prospects in international lending, which, of course, does not apply to any individual loan, can be derived from the loan losses that banks have already experienced. For a small group of American banks, the average loss during the years 1976-77 on foreign loans has been about one-third of one per cent, as against a domestic loan loss ratio of over three-quarters of one per cent. The range of individual bank experience, of course, is a good deal wider, especially on foreign loans.

The past, moveover, is not necessarily a guide to the future. Differences in individual bank experience as well as differences in the credit standing of particular borrowers, indicate that it would not be appropriate to impute to the spread some fixed risk component. But the order of magnitude, to date, of loss experience on international loans, when compared with syndicated loan spreads, nevertheless provides a useful benchmark.

The spread further must contain a contribution toward the cost of the bank's capital. It is a function of the bank's capital to support the holding of risk assets. Of course, if the bank believes itself to be acquiring a risk-free asset -- a short-term inter-bank placement might come close to this -- the acquisition would not raise the bank's ratio of risk assets to capital. The return on such an asset might not be required to make much of a contribution toward covering the cost of capital. But assuming a not unusual capital/total assets ratio of 5 per cent, the spread on a loan of average risk must cover the required income before tax on capital equal to 5 per cent of the loan. Given further a not untypical return on capital after tax of 10 per cent, and a marginal tax rate of about 50 per cent, the loan must earn 20 per cent of 5 per cent of capital, or 1.0 per cent. These assumptions concerning capital surely are quite modest. Strictly speaking, it might be more appropriate to base this calculation on the ratio of risk assets to capital, which would call for a higher return. For some banks, however, particularly non-U.S. banks, capital ratios may be even lower than the 5 per cent illustratively assumed. To the extent that banks and their supervisors regard such ratios as adequate, the cost-of-capital component of the spread is reduced.

Concerning the operating costs of putting on a loan, I have no information, although I have heard complaints about the high level of rents, the high price of lunches, and the costs inflicted by recent U.S. tax changes affecting American citizens abroad.

Putting the foregoing data together, it would appear that a spread of 1.0 per cent, that for a while was considered a minimum, hardly gives a well capitalized bank an adequate return on capital and a reasonable risk premium, with nothing left over for operating costs. A spread of .75 per cent does not cover the cost of capital of even a very modestly capitalized bank plus a reasonable risk premium.

Banks that are putting on loans at such a spread, or even less, must have substantial funding advantages, or income and other benefits from the loan, aside from the spread, or they are diluting their earnings.

I do not find at all convincing an effort to justify low premia by a misguided appeal to the principle of marginal cost pricing -- that is, that any income above out-of-pocket costs is so much money to the good. There are risks to be taken into account, and there is the bank's balance sheet, with its capital ratios and corresponding cost of capital, to be considered. A measure of cost that ignores these legitimate components of marginal cost undermines the application of a sound economic concept.

While spreads have been declining, maturities have been advancing. In terms of risk, this implies an added cost which is not covered by the movement of spreads. Longer maturities convey an indirect benefit in reducing the prospective bunching of roll-overs and in reducing somewhat the disparity between the length of loans and the pay-out period of the investments that, however indirectly and remotely, are financed by them. But the lender must bear in mind that loans of long maturity are almost certain to be tested by a variety of adverse circumstances.

A Comparison of Euromarket and U.S. Bond Market Spreads

It is interesting to compare changes in the dispersion of spreads among high- and low-risk borrowers in the Euromarket with similar changes among borrowers in the American bond market. In the Eurocurrency market, the rise in spreads was accompanied by a narrowing of the dispersion. Spreads rose most for what had originally been the low spread borrowers. In the U.S. bond market, spreads widened as interest rates rose during 1973 and 1974. The lower quality risks had to pay substantially more relative to the higher grades.

In terms of credit risk, it would seem that the American market evaluated changing risks rationally, allowing for a greater increase in the danger of failure among the borrowers where risk was perceived as high to begin with. The Euromarket, to the contrary, appeared to wipe out differences among borrowers and to assign to all of them a similar higher risk rating. Conceivably, this may reflect the difference between credit risk and sovereign or country risk. The circumstances of 1974 may have been of a sort to exacerbate primarily the element of country risk.

A second and more casual observation may follow from an inspection of quality spreads in the Eurocurrency market and the U.S. bond market. In the Eurocurrency market, the spread even for relatively weak risks rarely has gone much above 2 per cent, representing a differential over prime risks of perhaps 1.5 per cent at most. In the U.S. bond market, the differential between A-rated utilities, by no means a weak risk, and U.S. Government bonds in 1975 went above 2 per cent. Given the absence of country risk in the U.S. bond market, it is hard to avoid the impression that the latter evaluates risks more sensitively and conservatively than the market for syndicated Eurocurrency loans. Whether front end fees and the like provide reason to modify this assessment significantly, cannot be said with any assurance.

The Recent Decline in Spreads

Why are spreads declining so sharply in the Euromarkets? Are risks clearly diminishing? Or have banks come under such pressure to lend that the market has become clearly a borrower's market?

To both questions, the answer is "yes." The condition of many borrowers has improved. But unfortunately it is also true that the pressure on banks to lend has increased. To that extent, the decline in spreads must be viewed as a very uncomfortable development.

Among the pressures converging on the bank are the following:

(1) Liquidity is high. Rising assets and liabilities in the Euromarket do not absorb limited supplies of reserves, as they would in national money markets. Monetary authorities, in pursuing their monetary targets, in some cases have overshot, in part due to exchange market intervention. Monetary authorities must bear in mind that money creation in the Euromarket, although historically quite limited, nevertheless occurs, and must factor it into their overall assessment of liquidity needs.

(2) Domestic loan demands in many countries other than the United States has been weak. In the United States, the large money market banks have experienced weaker demand than the rest of the banking system. They, of course, are the principal U.S. lenders in the Eurocurrency markets.

(3) There is pressure to maintain earnings growth, on penalty of being downgraded by security analysts. If their stock fails to advance, their prospects of raising new capital diminish. Yet they need to raise new capital if they want to continue to lend.

(4) Banks have built up large establishments and have built in high costs which require continued activity. It would be costly to disassemble and perhaps later reassemble these.

(5) Borrowing countries today are exerting powerful pressures, reminding banks of the need to maintain a continuing relationship, and meanwhile taking advantage of their ability to repay and refund earlier loans at lower spreads.

(6) Finally, all banks look at their peer group. So long as all do the same, no single bank needs to feel that it is making an obvious mistake. That, in some circles, is known as the lemming theory of banking.

Obviously, however compelling these considerations may appear to the individual bank, they do not justify a lowering of

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credit standards. Banks in the Euromarkets enjoy a degree of freedom from control that is unusual in domestic banking systems, although they, and particularly U.S. banks, are by no means unsupervised and unregulated. U.S. banks, in particular, are subject to the regular examinations and other supervisory activities of the U.S. banking agencies, no matter where their branches and subsidiaries are located. But it is true that the volume of lending in Euromarkets is less directly controlled by central bank action than is the volume of domestic lending. Hence, banks should be disciplined all the more by high credit standards as they expand in these markets.

The Euromarkets, as I said at the beginning, have given evidence of what a market system can achieve when it is allowed to operate freely subject only to prudential supervision. The continuance of this freedom will depend on the responsibility with which it is used.

Table 1

Interest Spreads and Maturities of Euro-currency Credits to Selected Countries Arranged by Category

	Q_4 1973		Q_4 1975		Q_4 1976		Q_3 1977		Q_4 1977		Q_1 1978	
	Average Spread (basis points)	Average Maturity (years)	Average Spread (basis points)	Average Maturity (years)	Average Spread (basis points)	Average Maturity (years)	Average Spread (basis points)	Average Maturity (years)	Average Spread (basis points)	Average Maturity (years)	Average Spread (basis points)	Average Maturity (years)
Non-oil LDCs a/	121	10.9	165	5.4	187	5.1	179	4.6	177	7.3	158	8.3
OPEC a/	129	7.3	167	5.7	133	7.0	132	5.6	159	5.5	104	8.5
Eastern Europe a/	61	8.8	149	5.5	129	5.5	113 c/	7.0 c/	116 c/	6.0 c/	123	7.2
Small OECD Countries a/	94	9.1	158	6.5	137	5.3	120	6.5	109	6.8	83	7.2
Range of spreads among country groups	(68)		(18)		(58)		(66)		(68)		(75)	
Average of individual countries:												
Weighted	111	9.5	163	5.7	161	5.6	153	5.3	155	7.0	132	8.2
(Unweighted)	(99)	(9.6)	(166)	(5.6)	(159)	(5.7)	(155)	(5.9)	(149)	(6.4)	(123)	(8.1)
Minimum spread for individual loans b/	56		125		113		88		88		57	

a/ Average spreads for individual countries shown in Table 3 weighted by total volume of borrowing by each country.
b/ Rate shown is lowest rate for syndicated Eurocurrency credit to all borrowers. To avoid extreme observations, rate reported is lowest rate for minimum of three credits.
c/ Observation from a single loan.
Source: IBRD, Borrowing in International Capital Markets, various issues.

Attachment 3

Dollar-Liabilities of Banking Offices
Outside the United States to Nonbank
U.S. Residents
(millions of dollars)

Date	Dollar-Liabilities to Nonbank U.S. Residents			Total Liabilities as Percent of:	
	Bank in Eight European Countries, Japan, Canada	Banks in Bahamas[1]	Total	M_4	M_5
December 1975	6,509	533	7,042	0.9	0.6
June 1976	7,071	1,014	8,085	1.1	0.7
December 1976	6,933	1,066	7,999	1.0	0.6
June 1977	7,685	2,051	9,736	1.2	0.7
September 1977	7,930	1,765	9,695	1.1	0.7
December 1977	8,009	1,755	9,765	1.1	0.7

1/ Short-term dollar deposits to large non-bank U.S. concerns as reported on Treasury balance of payments reports.

Attachment 4

REPURCHASE AGREEMENTS AND OTHER NONRESERVABLE BORROWINGS IN IMMEDIATELY AVAILABLE FUNDS

During the seven days ended December 7, 1977, the Federal Reserve System conducted a special survey of gross borrowings in immediately available funds by 46 large member banks. The survey obtained detailed information on the source and maturity distribution of these borrowings and also distinguished between borrowings in the form of repurchase agreements involving U.S. Government and Federal agency securities and other forms of borrowings in immediately available funds. Aggregate data from the survey are presented in the accompanying tables.

A similar survey, conducted in April 1974, provided a basis for comparing changes in these sources of funds over time. Aggregate data from that survey are also shown in the tables. Only 45 of the 46 large member banks, however, participated in the 1974 survey.

The tables contain seven-day averages of the dollar amount of outstanding borrowings reported during the survey week. In addition, all data were reported on a gross basis, that is, not netted against loans made to the same institutions. Neither deposits nor other obligations subject to reserve requirements or interest rate limitations under Federal Reserve Regulations D, Q, or M were included.

The first table provides detailed maturity information on both repurchase agreements and other forms of nonreservable borrowings in immediately available funds. The second table combines the two forms of borrowings in a format similar to that of the 1974 survey, which is shown in the third table.

Due to modifications in the 1977 reporting format, certain differences exist between the two surveys in the degree of detail obtained. While separate lender categories for savings and loan associations and savings banks were reported in the 1974 survey, these institutions were combined into "other depository institutions" in the 1977 survey. Similarly, Federal Home Loan Banks and other agencies of the U.S. appeared separately in 1974, but were combined into a single item on the 1977 survey. In addition, credit unions and financial businesses were reported separately in the 1977 survey. These institutions had previously been combined in borrowings from "all others" and "business corporations," respectively, in the 1974 survey. The maturity distribution was also modified in 1977 to include the combination of borrowing in maturities of 30 to 90 days and over 90 days to 7 years, previously reported separately in the 1974 survey.

The following definitions may be useful in interpreting the tables:

Immediately available funds - Often called "Federal funds," these are funds that a bank can either use or dispose of on the same business day as the transaction is executed, giving rise to the receipt of funds.

Repurchase agreements - These transactions involve the sale of securities to a customer under an agreement to repurchase the same or similar securities at a later date. For purposes of these surveys, only repurchase agreements involving U.S. Government or Federal agency securities were reported in the repurchase agreement section.

Other forms of borrowings - These include all other borrowings in immediately available funds, whether secured, unsecured, or in the form of repurchase agreements on other securities or assets of the bank.

Maturity - "One-day" borrowings consist of all borrowings for one business day that mature on the next business day, including borrowings on Friday to mature on Monday.

Continuing contracts - These transactions reflect borrowings that remained in effect for more than one day but that had no specified maturity and did not require advance notice by lender or borrower to terminate.

Other maturities - These categories were defined in terms of calendar days, not business days.

Financial Reports Section
Division of Research and Statistics
Board of Governors of the Federal Reserve System

February 2, 1978

FOR STATEMENT WEEK ENDED DECEMBER 7, 1977

Table 1

REPORT OF GROSS NONRESERVABLE BORROWINGS IN IMMEDIATELY AVAILABLE FUNDS
7 DAY AVERAGE DOLLAR AMOUNTS (MILLIONS)
(46 Banks)

		MATURITY				
	TOTAL	1-DAY	CONTINUING CONTRACT	2-7 DAYS	8-30 DAYS	OVER 30 DAYS BUT LESS THAN 7 YEARS
I. RP'S ON U.S. GOVERNMENT AND AGENCY SECURITIES						
A. Member commercial banks	2,803.5	1,541.1	170.1	358.7	427.8	305.8
B. Nonmember domestic commercial banks	255.8	147.2	23.2	27.7	26.2	31.5
C. Branches and agencies of foreign banks operating in U.S.	38.6	25.1	.0	13.5	.0	.0
D. Edge Act and Agreement corporations	40.6	29.4	.0	10.1	.4	.7
E. Other depository institutions	77.8	59.1	.1	12.6	1.4	4.8
F. Agencies of the U.S.	403.5	385.1	.0	7.8	7.1	3.5
G. Securities dealers	1,976.1	397.5	248.4	215.4	608.4	506.4
H. Credit unions	61.9	32.4	.8	18.0	.0	10.7
I. Financial businesses	1,701.7	1,042.0	155.2	303.4	160.0	41.1
J. All other businesses	10,472.4	3,256.8	1,198.5	2,203.1	2,913.0	901.0
K. State and local governments	3,787.7	2,188.8	144.5	432.2	681.2	341.0
L. Foreign banks and foreign official institutions	323.0	225.7	.0	58.1	37.4	1.8
M. All others	248.4	150.8	16.7	37.4	33.5	10.0
TOTAL	22,191.0	9,481.0	1,957.5	3,697.8	4,896.4	2,158.3
II. ALL OTHER NONRESERVABLE BORROWINGS						
A. Member commercial banks	17,908.0	16,982.2	512.2	79.1	143.7	190.8
B. Nonmember domestic commercial banks	5,529.2	4,726.2	558.8	18.4	162.7	63.1
C. Branches and agencies of foreign banks operating in U.S.	2,190.3	2,155.2	1.8	1.4	4.1	27.8
D. Edge Act and Agreement corporations	210.0	181.5	.0	1.0	5.5	22.0
E. Other depository institutions	5,946.9	4,047.4	364.5	83.7	370.8	1,080.5
F. Agencies of the U.S.	2,245.6	1,983.4	.5	33.1	49.8	178.8
G. Securities dealers	1,689.2	1,689.2	.0	.0	.0	.0
H. All others	149.3	79.0	6.5	63.7	.1	.0
TOTAL	35,868.5	31,844.1	1,444.3	280.6	736.7	1,563.0

Financial Reports Section
Division of Research and Statistics
Board of Governors of the Federal Reserve System

FOR STATEMENT WEEK ENDED DECEMBER 7, 1977

Table 2

REPORT OF GROSS NONRESERVABLE BORROWINGS IN IMMEDIATELY AVAILABLE FUNDS
7 DAY AVERAGE DOLLAR AMOUNTS (MILLIONS)
(46 Banks)

	TYPE			MATURITY				
BORROWED FROM:	RP'S ON U.S. GOVT. AND AGENCY SECURITIES	ALL OTHER	TOTAL	1-DAY	CONTINUING CONTRACT	2-7 DAYS	8-30 DAYS	OVER 30 DAYS BUT LESS THAN 7 YEARS
A. Member commercial banks	2,803.5	17,908.0	20,711.5	18,523.3	682.3	437.8	571.5	496.6
B. Nonmember domestic commercial banks	255.8	5,529.2	5,785.0	4,873.4	582.0	46.1	188.9	94.6
C. Branches and agencies of foreign banks operating in U.S.	38.6	2,190.3	2,228.9	2,180.3	1.8	14.9	4.1	27.8
D. Edge Act and Agreement corporations	40.6	210.0	250.6	210.9	.0	11.1	5.9	22.7
E. Other depository institutions	77.8	5,946.9	6,024.7	4,106.5	364.6	96.1	372.2	1,085.3
F. Agencies of the U.S.	403.5	2,245.6	2,649.1	2,368.5	.5	40.9	56.9	182.3
G. Securities dealers	1,976.1	1,689.2	3,665.3	2,086.7	248.4	215.4	608.4	506.4
H. Credit unions	61.9	.0	61.9	32.4	.8	18.0	.0	10.7
I. Financial businesses	1,701.7	.0	1,701.7	1,042.0	155.2	303.4	160.0	41.1
J. All other businesses	10,472.4	.0	10,472.4	3,256.8	1,198.5	2,302.1	2,913.0	901.0
K. State and local governments	3,787.7	.0	3,787.7	2,188.8	144.5	432.2	681.2	341.0
L. Foreign banks and foreign official institutions	323.0	.0	323.0	225.7	.0	58.1	37.4	1.8
M. All others	248.4	149.3	397.7	229.8	23.2	101.1	33.6	10.0
TOTAL	22,191.0	35,868.5	58,059.5	41,325.1	3,401.8	3,978.2	5,633.1	3,721.3

Financial Reports Section
Division of Research and Statistics
Board of Governors of the Federal Reserve System

Table 3

FOR STATEMENT WEEK ENDED APRIL 24, 1974

REPORT OF GROSS NONRESERVABLE BORROWINGS IN IMMEDIATELY AVAILABLE FUNDS
7 DAY AVERAGE DOLLAR AMOUNTS (MILLIONS)
(45 Banks)

	TYPE			MATURITY					
BORROWED FROM:	RP'S ON U.S. GOVT. AND AGENCY SECURITIES	ALL OTHER	TOTAL	1-DAY	CONTINUING CONTRACT	2-7 DAYS	8-29 DAYS	30-90 DAYS	OVER 90 DAYS BUT LESS THAN 7 YEARS
A. Member commercial banks	1,001.7	13,083.7	14,085.4	11,404.1	1,421.7	234.8	182.0	456.8	385.8
B. Nonmember domestic commercial banks	455.4	3,889.4	4,344.8	2,827.0	1,347.7	69.5	30.4	56.1	14.0
C. Branches and agencies of foreign banks operating in U.S.	.1	3,183.1	3,183.2	2,347.0	72.8	44.0	209.2	350.1	160.0
D. Edge Act and Agreement corporations	28.7	116.2	145.0	95.5	6.5	.0	4.2	38.5	.0
E. Savings and loan associations and cooperative banks	64.0	2,889.4	2,953.4	1,766.5	511.1	97.4	131.5	370.5	76.1
F. Savings banks	7.2	1,643.5	1,650.8	1,198.5	432.5	4.1	.2	14.0	1.2
G. Federal Home Loan Banks and Board	6.8	1,173.0	1,179.8	680.0	5.8	6.4	147.5	240.4	99.5
H. All other agencies of the U.S.	235.8	483.1	719.0	367.8	6.0	100.1	59.2	50.7	135.0
I. Securities dealers	941.1	66.4	1,007.5	136.7	93.5	133.0	245.5	368.4	30.2
J. Business corporations	2,110.4	.0	2,110.4	1,013.8	190.5	452.7	349.7	88.8	14.7
K. State and local governments	3,033.2	.0	3,033.2	1,240.0	181.1	429.7	482.5	490.7	209.0
L. Foreign banks and foreign official institutions	613.4	.0	613.4	342.5	165.5	31.2	67.0	7.0	.0
M. All others	235.0	.0	235.0	76.1	43.8	50.0	39.2	24.7	1.0
TOTAL	8,733.2	26,528.1	35,261.4	23,496.0	4,479.1	1,653.4	1,948.8	2,557.1	1,126.8

Financial Reports Section
Division of Research and Statistics
Board of Governors of the Federal Reserve System

February 27, 1978

The Honorable William Proxmire
Chairman
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

I am pleased to respond to your request of December 15, 1977, for information concerning State member banks to be used in connection with hearings on the condition of the banking system. I believe that the enclosed materials are responsive to the request as it was modified in consultation with Mr. C. L. Marinaccio, Special Counsel to your Committee.

If members of your staff have any questions about these materials, I suggest that they contact Mr. S. H. Talley, Assistant Director of our Division of Banking Supervision and Regulation.

Please let me know if I can be of further assistance in this matter.

Sincerely yours,

(Signed) Arthur F. Burns

Arthur F. Burns

Enclosure: (Information Concerning State Member Banks)

INFORMATION CONCERNING STATE MEMBER BANKS PREPARED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM FOR THE 1978 HEARINGS ON THE CONDITION OF THE BANKING SYSTEM

TABLE OF CONTENTS

CURRENT BANK RATING SYSTEM USED BY THE FEDERAL RESERVE

¶ 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 undercapitalized with better ratios, in general a bank will be considered undercapitalized 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,

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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.

problems resulting from management weakness or incompetence create so unsatisfactory a condition that management may need to be strengthened or replaced before sound bank condition may be brought about.

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COMPOSITE RATINGS OF STATE MEMBER BANKS

	Year-end	Composite Rating 1	2	3 or 4	Total
Number of banks	1972	749	302	33	1,084
	1973	751	278	29	1,058
	1974	730	267	50	1,047
	1975	672	304	64	1,040
	1976	624	329	61	1,014
	1977 1/	626	319	57	1,002
Total assets ($ millions)	1972	65,945	106,402	1,552	173,899
	1973	75,434	121,663	6,658	203,755
	1974	77,509	75,914	68,111	221,534
	1975	50,980	101,356	74,047	226,382
	1976	45,787	112,686	83,628	242,101
	1977 2/	51,612	121,195	73,887	246,694
Total deposits ($ millions)	1972	55,140	88,699	1,367	145,205
	1973	61,302	99,788	5,113	166,203
	1974	62,492	62,493	56,672	181,657
	1975	42,857	83,198	60,821	186,876
	1976	38,681	92,395	67,738	198,814
	1977 2/	43,013	98,033	59,139	200,184

1/ Examination reports received to February 1, 1978.
2/ Financial data as of June 30, 1977.

CHANGES IN COMPOSITE RATINGS OF
STATE MEMBER BANKS DURING
1973

	COMPOSITE RATING		
	1	2	3 or 4
Banks Moving Into Each Composite			
Rating between 12-31-72 and 12-31-73			
1) Number of Banks	71	67	11
2) Total Assets ($ millions)	3,517	3,543	5,522
3) Total Deposits ($ millions)	2,928	3,056	4,141
Banks Moving Out of Each Composite			
Rating between 12-31-72 and 12-31-73			
1) Number of Banks	53	81	15
2) Total Assets ($ millions)	2,948	9,035	599
3) Total Deposits ($ millions)	2,544	7,065	517

CHANGES IN COMPOSITE RATINGS OF
STATE MEMBER BANKS DURING
1974

	COMPOSITE RATINGS		
	1	2	3 or 4
Banks Moving Into Each Composite			
Rating Between 12-31-73 and 12-31-74			
1) Number of Banks	66	88	31
2) Total Assets ($ millions)	4,378	10,598	60,257
3) Total Deposits ($ millions)	3,670	8,504	50,476
Banks Moving Out of Each Composite			
Rating Between 12-31-73 and 12-31-74			
1) Number of Banks	85	92	8
2) Total Assets ($ millions)	10,248	64,568	417
3) Total Deposits ($ millions)	8,208	54,090	351

CHANGES IN COMPOSITE RATINGS OF
STATE MEMBER BANKS DURING
1975

	COMPOSITE RATING		
	1	2	3 or 4
Banks Moving Into Each Composite			
Rating Between 12-31-74 and 12-31-75			
1) Number of Banks	49	106	31
2) Total Assets ($ millions)	10,169	66,030	41,840
3) Total Deposits ($ millions)	8,234	53,623	34,230
Banks Moving Out of Each Composite			
Rating Between 12-31-74 and 12-31-75			
1) Number of Banks	102	69	15
2) Total Assets ($ millions)	37,931	41,196	38,913
3) Total Deposits ($ millions)	29,684	33,343	33,060

CHANGES IN COMPOSITE RATINGS OF
STATE MEMBER BANKS DURING
1976

	COMPOSITE RATINGS		
	1	2	3 or 4
Banks Moving Into Each Composite			
Rating Between 12-31-75 and 12-31-76			
1) Number of Banks	49	108	24
2) Total Assets ($ millions)	3,390	12,153	13,359
3) Total Deposits ($ millions)	2,743	10,285	11,598
Banks Moving Out of Each Composite			
Rating Between 12-31-75 and 12-31-76			
1) Number of Banks	91	68	22
2) Total Assets ($ millions)	11,208	15,384	2,310
3) Total Deposits ($ millions)	9,465	13,276	1,885

CHANGES IN COMPOSITE RATINGS OF
STATE MEMBER BANKS DURING
1977

	COMPOSITE RATING		
	1	2	3 or 4
Banks Moving Into Each Composite Rating Between 12-31-76 and 12-31-77			
1) Number of Banks	62	75	20
2) Total Assets ($ millions)	10,276	17,490	690
3) Total Deposits ($ millions)	8,516	14,668	609
Banks Moving Out of Each Composite Rating Between 12-31-76 and 12-31-77			
1) Number of Banks	57	77	23
2) Total Assets ($ millions)	5,125	10,858	12,474
3) Total Deposits ($ millions)	4,434	9,029	10,330

UNUSUAL OR EMERGENCY BORROWING
BY MEMBER BANKS 1/
1974 - 1977 2/

Banks by Size Group	1974 Reserve Periods 3/	1974 Range of Borrowing 4/ (Millions) Low	1974 High	1975 Reserve Periods	1975 Range of Borrowing (Millions) Low	1975 High	1976 Reserve Periods	1976 Range of Borrowing (Millions) Low	1976 High	1977 Reserve Periods	1977 Range of Borrowing (Millions) Low	1977 High
$5 BILLION AND OVER												
None												
$1 BILLION TO $5 BILLION												
National Bank (Problem)	23	15.7	1731.4									
National Bank (Problem)	6	35.7	160.7	4	35.7	121.4						
$500 MILLION TO $1 BILLION												
None												
$100 MILLION TO $500 MILLION												
National Bank (Problem	3	.8	8.3									
National Bank (Problem)	22	19.4	39.6	15	7.0	20.0						
National Bank				4	.3	3.1						
National Bank (Problem)	32	30.0	57.3	16	2.9	34.7						
National Bank (Problem)	7	8.0	11.0	32	.3	18.3						
State Member Bank (Problem)							1	1.4				
National Bank (Problem)	8	4.6	8.5									
National Bank (Problem)				6	4.9	9.6	2	11.4	13.0			

UNUSUAL OR EMERGENCY BORROWING
BY MEMBER BANKS 1/
1974 - 1977 2/

Banks by Size Group	1974 Reserve Periods 3/	1974 Range of Borrowing 4/ (Millions) Low	1974 High	1975 Reserve Periods	1975 Range of Borrowing (Millions) Low	1975 High	1976 Reserve Periods	1976 Range of Borrowing (Millions) Low	1976 High	1977 Reserve Periods	1977 Range of Borrowing (Millions) Low	1977 High
$50 MILLION TO $100 MILLION												
State Member Bank (Problem)				14	.2	7.1						
National Bank	23	2.9	6.2	22	.1	5.2						
National Bank	13	.1	3.6									
State Member Bank (Problem)				9	1.7	7.7	12	6.3	8.2			
UNDER $50 MILLION												
National Bank (Problem)				12	1.2	2.0						
National Bank (Problem)	15	1.3	3.3	1	1.1							
National Bank	2	.1		11	.1	.3						
National Bank	2	.4	.6									
National Bank (Problem)										7	.1	.5

UNUSUAL OR EMERGENCY BORROWING
BY MEMBER BANKS 1/
1974 - 1977 2/

FOOTNOTES

1/ Borrowings under Section 201.2(e) of the Board's Regulation A, 12 C.F.R. Part 201 et. seq. On September 25, 1974, the Board amended its Section 201.2(e) of Regulation A, as follows: "(1) In the event of unusual or emergency circumstances resulting from national, regional, or local difficulties, Federal Reserve credit beyond that contemplated under Section 201.2(c) is available. (2) Federal Reserve credit is also available for protracted assistance where there are exceptional circumstances or practices involving only a particular member bank. A special rate apart from rates charged for lending to member banks under other provisions of this Part may be established by Federal Reserve Banks subject to review and determination by the Board of Governors and applied to such credit. The special rate may apply to member banks borrowing for prolonged periods (such as for more than eight weeks) and in significant amounts (such as when the loan has exceeded on average the amount of the borrowing bank's required reserves) because of financial strains arising from particular circumstances or practices affecting the individual bank--including sustained deposit drains, impaired access to money market funds, or sudden deterioration in loan repayment performance. In no case should the special loan rate to member banks exceed the rate established for loans to non-members under 12 U.S.C. 347(c)."

2/ Data is from September 25, 1974 through December 31, 1977.

3/ Number of Reserve Periods during which the bank was borrowing under Section 201.2(e) of Regulation A.

4/ Dollar amounts represent the average borrowing for the Reserve Period.

FEDERAL RESERVE POLICY REGARDING BANK LENDING
TO FOREIGN COUNTRIES SUBJECT TO IMF STANDBY AGREEMENTS

The Federal Reserve does not direct member banks to conform their foreign lending to any standby agreements entered into by foreign countries with the International Monetary Fund. The Federal Reserve believes that individual credit decisions should be made by member banks on the basis of a careful evaluation of factors and it does not enter into the credit decision process by specifying some factors at the expense of others.

The terms of IMF standby arrangements are not disclosed by the Fund. However, in some instances, the borrowing country has chosen to make its contractual Letter of Intent available to banks and the general public. A recent example is the December 1976 letter agreed to by the United Kingdom authorities. A copy of that Letter of Intent is attached.

IMF stabilization arrangements that include performance criteria as conditions for periodic disbursements from the IMF are now in effect for the following countries: Burma, Egypt, Italy, Jamaica, Mexico, Pakistan, Peru, the Philippines, Romania, Sri Lanka, the United Kingdom, and Zaire.

Finally, it may be noted that the banks themselves have increasingly been placing emphasis in their lending on foreign countries being in good standing with the International Monetary Fund.

CONFIDENTIAL

Treasury Chambers
Parliament Street
London, SW1P 3AG

15 December 1976

Dear Mr. Witteveen:

1. The Government of the United Kingdom hereby requests of the International Monetary Fund a stand-by arrangement under which for a period of two years the Government of the United Kingdom will have the right to purchase from the Fund currencies of other members in exchange for sterling up to an amount equivalent to SDR 3,360 million. Before making purchases under the stand-by arrangement, the Government will consult with the Managing Director on the particular currencies to be purchased from the Fund.

2. The purpose of this request is to support the policies that have been adopted by the Government of the United Kingdom to strengthen the balance of payments and create the conditions in which it will be possible to get both unemployment and domestic inflation down from their present unacceptable levels and keep them down. The stand-by arrangement will also help to repay external debt now falling due and assist in maintaining orderly conditions in the exchange market for sterling. The Government's objectives and policies, which I shall summarize below, have been set out in detail in recent policy pronouncements, including particularly the Prime Minister's speech to the House of Commons on 11 October 1976, my speeches to the House on 11 October and 30 November, and my statement in the House this afternoon.

3. Since the summer of 1975, the Government, with the support of both sides of industry, has pursued a medium-term strategy whose objectives are to reduce the rate of inflation and to achieve a sustainable growth in output, employment, and living standards based on a strong expansion in net exports and productive investment. In order to secure this strategy, the White Paper on public expenditure published in February 1976 (Cmnd. 6393) indicated the Government's intention in the years ahead to reduce the share of resources taken by public expenditure. It is also part of this strategy to reduce the public sector borrowing requirement so as to establish monetary conditions which will help the growth of output and the control of inflation. The Government sees this strategy as the basis for a three-year programme which will firmly establish the recovery of the nation's economy and will also allow the United Kingdom to make its proper contribution to the stability and prosperity of the world.

4. The two pillars on which this strategy is based are the social contract with the trades union movement, which has already allowed us to achieve a substantial reduction in the rate of price and wage inflation and has brought about a dramatic improvement in industrial relations; and the industrial strategy, through which the Government, the trade unions, and the employers are seeking to improve the performance of our manufacturing industry and, in particular, its

productivity and its ability to compete successfully in world markets. It is our firm intention to continue the policy of securing a progressive deceleration of inflation through voluntary agreement between the Government and the Trades Union Congress. Under the first stage of this policy, the increase in average earnings was reduced to 13.9 per cent in the year ending July 1976 from 27.6 per cent in the corresponding period a year earlier. Under the second stage, the TUC and the Government are applying the present pay agreement strictly; average earnings resulting from this second stage policy in the period July 1976 to July 1977 will at least rise by something like half of the amount of increase in the preceding 12 months. Largely because of this restraint in earnings the rate of price increase has fallen sharply from a rate of 25.9 per cent in the 12 months to October 1975 to one of 14.7 per cent in the 12 months to October 1976. In recent months this progress has been interrupted because of the sharp rise in commodity prices, the effects of the drought, and the depreciation of the exchange rate of sterling. Nevertheless, the Government is determined to ensure that the rate of inflation continues to fall. Accordingly, it will begin early next year to consider, in consultation with the TUC and the CBI, how this objective can best be pursued in the period beyond July 1977. I would aim at reaching agreement through these consultations in the early spring of next year, in time for the Budget. This will ensure that the gains achieved by the sacrifices already made are further improved and that there is continued progress in bringing the rate of inflation in the United Kingdom down to that obtaining in the other main industrial countries.

5. Work to develop an industrial strategy can produce major results only in the medium term, but significant progress has been made in the last 12 months. The current phase of the work is directed to increasing market shares at home and abroad, through improvements in industrial productivity and non-price competitiveness. It is the Government's policy to create the conditions in which a strong British manufacturing industry can contribute to the improvement of our balance of trade and payments.

6. I have repeatedly stressed that the Government aims to strengthen the balance of payments progressively over the coming years as one essential condition for sustained growth and a high level of employment. On the basis of our present projections for the growth of world trade and prices, the Government expects that the deficit on current account will fall from over £ 2 billion in 1976/77 to about £ 1 billion in 1977/78, and then move into a surplus of some £ 2 billion to £ 3 billion in 1978/79. In the coming years the current account will increasingly benefit from production of North Sea oil and gas. This prospect together with continued progress in improving the non-oil component of our external accounts will allow us to reduce the large outstanding amount of foreign debt that has been accumulated and at the same time to reconstitute our foreign exchange reserves. However, I must emphasize that an improvement of this magnitude must depend on a satisfactory rate of expansion in world trade. It is not possible for deficit countries to improve their position unless countries with a strong balance of payments ensure a satisfactory rate of growth in their economies and are prepared to accept a deterioration in their own external position.

7. The Government is determined to carry through a stabilization programme which will bring the economy into balance and which, if it is not to produce unacceptable social tensions and levels of unemployment, will need to extend over two to three years. The changes required by this programme must proceed at a pace which will not overstrain the consensus on which our policies for regenerating industry and reducing inflation must depend. The Government is deeply conscious that the present state of the economy has brought a waste of human and material resources. The Government's objective is to break decisively away from the constricting pattern of present circumstances and post-war disappointments. It will, therefore, keep a close watch on the development of the economy, so that if any further action is needed, it can be taken in good time to ensure that conditions are favorable for the necessary shift of resources into exports and productive investment. For this purpose, an essential element of the Government's strategy will be a continuing and substantial reduction over the next few years in the share of resources required for the public sector. It is also essential to reduce the public sector borrowing requirement (PSBR) in order to create monetary conditions which will encourage investment and support sustained growth and the control of inflation. In the following paragraphs of this letter I will describe the policies which the Government will therefore follow over the next two years: the policies for the second year--the financial year 1978-79--will be reviewed before the end of 1977, in the light of economic developments and prospects.

8. Our most recent forecast shows the PSBR in 1976/77 to be £11.2 billion. This is less than the figure of £12 billion forecast when I requested a stand-by arrangement in the first credit tranche in December 1975. This improvement in the expected outcome reflects higher revenues because of the higher rate of inflation referred to in paragraph 4 above and the improved financial position of the public corporations; and it has also been assisted by the progress that has recently been made in establishing firm control over large areas of public expenditures by the use of cash limits and our refusal to sanction expenditure beyond the total set in last February's White Paper for programmes and the contingency reserve.

9. In the White Paper of February this year (Cmnd. 6393) the Government introduced policies to move resources into the balance of payments and investment by reducing public expenditure in both 1977/78 and 1978/79. In July 1976, it made further reductions in public expenditure programmes for the year 1977/78, of the order of £1 billion at 1976 Survey prices. It also announced a surcharge on employers' national insurance contributions, to become effective on April 6, 1977, which will yield some £1 billion in additional revenue in 1977/78.

10. Since these measures were announced, there have been periods of instability in the exchange market and pressures on monetary aggregates, which have led to a steep increase in interest rates; these, if sustained, would damage our economic performance in several areas. I am therefore convinced that a further reduction in public expenditure and in the public sector borrowing requirement is unavoidable.

11. To remove this instability, therefore, the Government has decided to reduce public expenditure programmes in 1977/78 by a further £1 billion and in 1978/79 by £1 1/2 billion, at 1976 Survey prices, in both cases. Details are set

out in my statement to the House of Commons today. At the same time I wish to give the maximum possible help to industry and to avoid unnecessary unemployment I therefore intend to increase expenditure on incentives for industrial investment and expansion and on measures to reduce unemployment in each of the two years 1977/78 and 1978/79 by £200 million. This expenditure will be financed by an increase of 10 per cent in the duties on alcohol and tobacco.

12. As a result of these measures and of a sale during 1977/78 of British Petroleum shares calculated to yield £500 million, the aim is to hold the PSBR to £ 8.7 billion in that year. As a proportion of GDP at market prices, the PSBR will therefore, fall from about 9 per cent in 1976/77 to about 6 per cent in 1977/78. If, at the time I plan my Budget for 1977/78, I judge that without increasing the PSBR above £ 8.7 billion there is scope for tax reliefs and if, as I hope, a satisfactory agreement has been reached with the TUC and the CBI on pay arrangements for the period after July 1977, then I would plan to use the available margin to reduce the present burden of direct taxation. My own belief is that present levels of direct taxation have proved discouraging to effort and efficiency, and if they were to continue unchanged they could threaten the improvement in our economic performance which is an essential objective of the Government's strategy.

13. The profile of public expenditure after these reductions and those mentioned earlier in this letter can therefore be stated as follows. The total of public expenditure programmes for the financial year 1976/77 (excluding debt interest and capital finance for nationalized industries) is now expected to be about 1 per cent more in volume than in 1975/76, when it was approximately £ 50 1/2 billion at 1976 Survey prices. This latest 1976/77 estimate is within the corresponding provision for these programmes and the contingency reserve in the last public expenditure White Paper (Cmnd. 6393). The level in 1977/78, after the measures announced in July and the further reductions now decided is planned to fall to about 1 per cent below that of 1975/76 at 1976 Survey prices without taking account of the proceeds of the planned sale of British Petroleum shares. The planned level for 1978/79 will also be about 1 per cent below that for 1975/76. That part of total expenditure which is due to provision for social security benefits for the unemployed is, however, subject to a margin of fluctuation according to the actual level of unemployment. The revised expenditure programmes incorporating the changes which I described will be published in the next public expenditure White Paper. The implication of the figures which I have given is that the published total for programmes plus the contingency reserve, but excluding on the one hand receipts from the sale of the British Petroleum shares and on the other hand debt interest and capital finance for the nationalized industries, will be around £ 50 billion or somewhat less in 1977-78 and around £ 50 billion again in 1978-79, at 1976 Survey prices in both cases. Capital finance for the nationalized industries mobilized by the Government is estimated to be broadly stable over this period.

14. I also intend to take further fiscal action totaling £ 0.5 billion at 1976 prices affecting 1978/79 in order to bring the PSBR for that year down to £ 8.6 billion in nominal terms; this would represent a fall in the level of the PSBR to some 5 1/4 per cent of GDP at market prices in that year.

15. The Government has determined these objectives for the PSBR on the basis of a forecast that the gross domestic product will show an increase of about 2 per cent in 1977/78 compared with 1976/77, followed by a somewhat larger increase of 2 1/2-3 per cent between 1977/78 and 1978/79.

16. In carrying out the annual survey of public expenditure programmes in 1977 and in preparing my 1978 Budget, I shall continue to be guided by the need, which is an essential element in our strategy, to shift resources into the export and investment sectors and I shall, therefore, take full account of the prospective growth of output and ensure that nothing stands in the way of this shift of resources. In particular, if the forecast rate of growth from the beginning of 1978 to the end of 1979 is in excess of 3.5 per cent per annum, I shall--in order to allow for it--make an additional fiscal adjustment in 1978/79 of between £ 500 million and £ 1,000 million at 1976 prices. The exact figure would depend on the buoyancy of aggregate demand.

17. A reduction in the PSBR will go a long way to improve our ability to control the rate of growth of the monetary aggregates, and will help to reduce the level of interest rates which might otherwise be an impediment to increased industrial investment. I have repeatedly stressed that our policies should not be undermined by an excessive expansion of credit. In the first half of 1976/77, the growth of bank lending rose much more rapidly than expected, and this contributed to pressures on the pound. To counter these developments, a series of measures have been taken. In September and October 1976, the Bank of England increased their minimum lending rate substantially and called for special deposits from the banking system amounting in all to 3 per cent of eligible liabilities. In November 1976, the Bank of England reintroduced the system of supplementary special deposits which should ensure that the growth of credit and the money aggregates is brought under control quickly. The Government is determined that bank credit expansion will not undermine the stability of the exchange market.

18. I accordingly intend that domestic credit expansion should be kept to £ 9 billion in the 12 months ending 20 April 1977 and to £ 7.7 billion in the 12 months ending 19 April 1978. I intend, however, to review the latter figure early in the financial year and to take account of the prospective financial requirements of industry for investment and expansion. It is the Government's intention that the course during each year of Domestic Credit Expansion (DCE), and of the public sector borrowing requirement within it, should be consistent with the intended results for the year as a whole and to take action as appropriate to this end.

19. In the year ending 18 April 1979, I expect the expansion of domestic credit to be further reduced to £ 6 billion. This, however, will have to be reviewed late in 1977 in the light of the prospects for 1978/79. In that review an appropriate downward adjustment will be made in the intended rate of domestic credit expansion for any reduction in the public sector borrowing requirement for 1978/79 that may result from the review described in paragraph 16.

20. I intend to fund the major part of the PSBR outside the banking system, so that there can be room within these levels of domestic credit expansion for bank credit to facilitate the shift of resources into exports and productive

investment. I envisage that the measures which I have now taken, especially those to reduce the PSBR, will make it possible to reduce interest rates progressively from their present exceptional levels, while maintaining effective control of the monetary aggregates.

21. For at least the immediate future, the supplementary special deposits scheme, involving guidelines for the growth of banks' interest-bearing liabilities, will be a key instrument for controlling the growth of bank credit to the private sector. It may also cause some shift of holdings of short-term public sector debt away from the banking system, distorting the DCE and money supply statistics, without affecting the underlying state of liquidity in the economy: if this happens, I intend to keep DCE correspondingly lower than the targets set out above.

22. While the exact implications of the targets for DCE for the growth of the money supply and, in particular, for sterling M3 will depend on the speed of progress in achieving our balance of payments objectives, I am satisfied that the resultant course of sterling M3 will be consistent with a reduction in inflation.

23. During the past year the problems of financing our external and internal deficits have seriously hampered progress in achieving our goals. The exchange market, in particular, has been a conspicuous cause of uncertainty, thereby undoubtedly delaying the recovery of the economy. The measures now taken by the Government give assurance that private business decisions can be taken against the background of a clearly defined policy. Intervention will be designed to minimize disruptive short-term fluctuations in the rate and to maintain stability in the exchange markets consistently with the continued maintenance of the competitive position of U.K. manufactures both at home and overseas. It is my belief that this, in conjunction with the continued restraint of domestic demand, a steady improvement in non-price competitiveness and progress in aligning our cost and price inflation to those of our major partners, will alter the long-standing trend for the U.K. share of world markets to diminish, and limit more effectively the continuing penetration of the domestic market by imported manufactures, thereby promoting industrial growth in the United Kingdom. It should also help to secure us a much needed improvement in our reserves position. The U.K. authorities stress their support of the Executive Board Decision of January 23, 1974, on Consultations on Members' Policies in Present Circumstances, and reiterate their intentions to collaborate with the Fund in accordance with the provisions of Article IV, Section 4(a).

24. The Government remains firmly opposed to generalized restrictions on trade and does not intend to introduce restrictions for balance of payments purposes. It continues to believe, however, that in current economic circumstances there may be cases where particular industries which are viable in the long-term are suffering serious injury as a result of increased imports. The Government has introduced certain temporary selective measures in a number of such cases and has stated that it is prepared to consider the further use of such measures where they may be justified in similar cases which may arise. It will be the Government's policy to reduce such protective measures as soon as

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circumstances permit. During the period of the stand-by arrangement, the Government does not intend to introduce any multiple currency practices or impose new or intensify existing restrictions on payments and transfers for current international transactions.

25. The Government believes that the policies set out in this letter are adequate to achieve the objectives of its programmes, but will take any further measures that may become appropriate for this purpose. The United Kingdom Government will consult the Fund in accordance with the policies of the Fund on such consultations on the adoption of any measure that may be appropriate. In any case, the United Kingdom authorities will reach understandings with the Fund before 16 January 1978, on their policy intentions for the remaining period of the stand-by arrangement.

Yours sincerely,

/s/

Denis Healey
Chancellor of the Exchequer

CLASSIFIED ASSETS OF STATE MEMBER BANKS

	Year-end	Total Deposits in Foreign and Domestic Offices: 5 billion and over	1-5 billion	500 million-1 billion	100-500 million	Under 100 million	Total	Rated Composite 3 or 4
Assets classified sub-standard ($ millions)	1972	575	459	174	213	146	1,566	60
	1973	698	529	164	224	161	1,775	157
	1974	1,948	849	222	336	216	3,572	1,933
	1975	4,772	1,192	384	496	287	7,132	4,082
	1976	5,520	1,162	496	531	294	8,003	4,460
	1977 1/	4,926	1,104	519	468	282	7,299	3,711
Assets classified doubtful ($ millions)	1972	248	104	22	39	14	427	18
	1973	373	101	24	46	19	561	25
	1974	906	212	21	67	31	1,237	834
	1975	1,493	268	78	107	37	1,983	948
	1976	1,339	268	75	85	28	1,795	996
	1977 1/	1,242	202	83	73	26	1,627	857
Assets classified loss ($ millions)	1972	40	24	9	19	14	106	5
	1973	65	42	12	21	15	155	25
	1974	112	51	18	26	23	229	114
	1975	175	64	17	35	22	312	201
	1976	160	59	23	35	22	299	175
	1977 1/	144	46	23	28	20	261	148
Number of banks	1972	6	14	19	88	957	1,084	33
	1973	7	16	16	87	932	1,058	29
	1974	7	17	15	83	925	1,047	50
	1975	7	18	16	88	911	1,040	64
	1976	7	15	17	98	877	1,014	61
	1977 1/	7	14	17	91	873	1,002	57

1/ Examination reports received to February 1, 1978.

PERCENTAGE OF CLASSIFIED ASSETS TO TOTAL CAPITAL OF STATE MEMBER BANKS

	Year-end	Total Deposits in Foreign and Domestic Offices: 5 billion and over	1-5 billion	500 million-1 billion	100-500 million	Under 100 million	Total	Rated Composite 3 or 4
Weighted percentage of classified assets to total capital	1972	20.9	25.3	17.1	17.3	11.4	19.5	83.9
	1973	26.5	26.1	18.8	17.7	11.9	22.2	63.2
	1974	61.1	41.3	25.6	24.9	14.9	41.7	92.8
	1975	122.9	51.3	45.9	37.1	18.9	73.6	153.3
	1976	112.6	50.6	49.3	36.4	19.1	72.3	134.4
	1977 1/	96.1	45.5	47.2	31.6	16.7	62.8	128.9
Unweighted percentage of classified assets to total capital	1972	24.4	25.4	18.0	17.3	12.4	13.1	90.1
	1973	28.0	25.7	19.6	17.0	11.8	12.6	87.0
	1974	74.6	41.3	27.3	23.1	13.3	15.2	94.2
	1975	143.0	56.4	46.1	34.3	17.9	21.2	107.7
	1976	117.7	56.8	47.1	33.3	19.4	22.4	105.3
	1977 1/	98.4	50.6	45.4	28.5	17.9	20.3	94.9

1/ Examination reports received to February 1, 1978.

LOAN COMMITMENTS AT SELECTED LARGE COMMERCIAL BANKS

Unused Commitments
(In Billions of Dollars)

Month-end	Total unused commitments 1/	To commercial and industrial firms					To nonbank financial institutions	For real estate loans
		Total	Formalized agreements			Confirmed lines 5/		
			Term 2/	Revolving 3/	Other 4/			
1975								
January	140.7	105.1	6.2	27.9	4.4	66.6	29.6	6.0
February	142.4	105.6	6.1	28.8	4.4	66.4	31.0	5.7
March	142.7	106.5	6.0	29.4	4.2	66.9	30.7	5.5
April	145.8	109.4	6.3	30.5	4.3	68.3	31.1	5.2
May	148.5	111.9	6.2	31.0	4.5	70.3	31.4	5.1
June	147.7	112.3	6.1	31.2	4.4	70.6	30.3	5.1
July	149.8	114.4	6.0	32.3	4.3	71.8	30.5	4.9
August	152.8	116.8	6.2	32.9	4.7	73.0	31.0	5.0
September	152.0	116.5	6.3	33.4	4.8	72.0	30.6	4.9
October	153.4	117.0	6.5	33.8	5.0	71.7	31.8	4.6
November	153.1	117.2	6.4	34.5	4.8	71.5	31.3	4.5
December	155.7	119.4	6.2	35.3	4.9	73.0	31.7	4.6
1976								
January	156.7	120.5	6.2	34.7	5.1	74.5	31.7	4.5
February	156.0	120.0	6.0	34.5	5.0	74.5	31.5	4.5
March	157.9	121.0	6.2	35.1	5.1	74.6	32.0	4.9
April	157.4	120.6	6.0	35.1	4.9	74.5	32.2	4.7
May	157.9	120.5	6.0	34.6	5.1	74.8	32.5	4.9
June	158.1	121.4	6.2	35.1	4.6	75.4	31.8	4.9
July	156.6	119.7	6.0	35.0	4.5	74.2	31.9	5.0
August	159.6	122.1	6.3	35.4	4.8	75.6	32.6	5.0
September	159.9	122.2	6.3	35.3	4.7	75.9	32.7	5.0
October	161.5	123.6	6.3	35.0	4.8	77.5	32.6	5.3
November	162.6	124.3	6.5	35.6	4.9	77.3	32.5	5.8
December	161.1	123.4	6.5	36.1	5.1	75.7	32.3	5.4

Month-end	Total unused commitments 1/	To commercial and industrial firms					To nonbank financial institutions	For real estate loans
		Total	Formalized agreements			Confirmed lines 5/		
			Term 2/	Revolving 3/	Other 4/			
1977								
January	165.8	128.2	6.4	35.2	5.2	81.3	32.6	5.0
February	164.3	126.6	6.5	34.5	5.2	80.4	32.7	5.0
March	166.7	128.5	6.7	35.1	5.1	81.6	32.9	5.3
April	166.5	128.2	6.7	34.8	5.0	81.7	32.8	5.6
May	166.9	128.7	6.8	34.2	5.0	82.7	32.5	5.8
June	167.4	128.7	7.0	34.7	4.7	82.3	32.9	5.8
July	167.0	128.1	7.5	34.7	5.2	80.7	32.7	6.2
August	168.6	128.7	7.5	34.8	5.7	80.8	33.3	6.6
September	169.2	128.6	7.6	35.1	5.8	80.1	33.5	7.0
October	171.1	129.6	8.6	37.1	5.8	78.1	34.2	7.4
November	179.6	137.1	8.5	39.9	6.8	81.9	34.3	8.1
December	179.6	136.8	8.8	38.4	6.3	83.3	34.8	8.0

1/ Unused commitments are the amounts still available for lending under official promises to lend that are expressly conveyed to the bank's customers orally or in writing, usually in the form of a formally executed agreement signed by one of the bank's officers.

2/ Commitments for term loans are those for loans with an original maturity of more than one year.

3/ Revolving credits are commitment agreements whereby the borrower may draw and repay loans at will with no repayment penalty and under which the commitment rebounds by an equal amount after a takedown has been repaid.

4/ Other commitments are expressions of willingness to lend, other than for term loans and revolving credits, that are made known to the customer and are characterized by detailed formal agreements specifying the terms and conditions under which a loan is to be made.

5/ Confirmed lines of credit represent general expressions of willingness to lend, other than for term loans or revolving credits, that are made known to the customer but are not characterized by detailed formal agreements specifying the terms and conditions under which a loan is to be made.

NOTE: Included in this series are 135 weekly reporting banks; these banks account for approximately 85 percent of commercial and industrial loans, 95 percent of nonbank financial loans, and 75 percent of real estate loans of all weekly reporting banks. Individual items may not add to totals due to rebounding.

ORDERS AND AGREEMENTS EXECUTED BY
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
1977

1. Bank - total deposits: $30 million 1/

   Subject: Violations of Regulation O, 18 U.S.C. 656, 1005, 1014, and 12 U.S.C. 83.

   Order: Prohibited future violations of above statutes and regulations; improve loan documentation procedures and controls on the issuance of cashier's checks.

2. Bank - total deposits: $70.5 million

   Subject: High volume of classified loans; liquidity problems; payment of excessive bonuses; accrual of interest on delinquent loans; violations of section 24A of the Federal Reserve Act.

   Agreement: Required Bank to submit and abide by written plans to reduce classifications; prohibited future violations of section 24A; required $2.5 million increase in Bank's equity by year-end 1978; written plan to increase percentage of Bank's net liquid assets to net liabilities, and to reduce net average borrowing; restriction on any increase in bonuses paid by Bank.

3. Holding company - total assets: $272 million

   Subject: Holding company was increasing its ownership in Bank without prior Board approval.

   Order: Prohibited future ownership increases without Board approval.

4. Holding company - total assets: $21 million

   Subject: Holding company paying excessive fees, bonuses, dividends to controlling shareholders.

1/ All deposit and asset figures are approximate.

Order: Required that holding company amortize bank stock debt over 12 years and limit dividends paid by subsidiary bank; commitment from shareholder to supply all funds necessary to accomplish the foregoing to extent holding company cash flow was not sufficient.

5. Holding company - total assets: $1.8 billion

Subject: Holding company acquired shares in two banks without prior Board approval.

Agreement: Prohibited future violations of Section 3 of the Bank Holding Company Act.

6. Holding company - total assets: $21 million

Subject: Bootstrapping transaction; issuance of commercial paper without ability to repay; excessive leverage.

Order: Required capital injection by majority shareholder; required holding company to amortize bank stock debt over 12 years; commitment from majority shareholder to supply all funds necessary for amortization to extent that holding company cash flow was insufficient; limited dividends from subsidiary bank; limited issuance of commercial paper.

7. Holding company - total assets: $22 million
8. Holding company - total assets: $12 million
9. Holding company - total assets: $4 million
10. Holding company - total assets: $11 million
11. Holding company - total assets: $12 million
12. Holding company - total assets: $34 million

Subject: The six preceding holding companies were all bootstrapped and highly leveraged. Since they are all controlled by the subject of the action described in #6 above, their recapitalization was part of the settlement of that action.

Agreement: Required principal shareholder to inject additional capital; required bank stock debt to be amortized over 12 years, with principal making funds available for this purpose if holding company cash flow was insufficient; limited dividends from subsidiary bank.

WRITTEN AGREEMENTS EXECUTED
BY FEDERAL RESERVE BANKS
1977

1. Holding company - total assets: $50 million

   Agreement: Holding company's computer subsidiary required to adjust the schedule of fees charged subsidiary banks to market and to limit surcharges assessed against subsidiary banks; required the disposal of two remote computer facilities.

2. Holding company - total assets: $190 million

   Agreement: Prohibited future violations of Regulation Y and required holding company to place senior officer in charge of monitoring Regulation Y compliance and educating other employees to prohibitions.

APPARENT VIOLATIONS OF LAW
CITED BY EXAMINERS

The following chart lists apparent violations of law cited by examiners in the latest available examination report for the 64 banks on the Board's December 31, 1977, list of banks requiring special supervisory attention. It should be noted that the data is based on recent examination reports and the corrective process has not been completed in all cases.

Number of Banks	Law or Regulation	Number of Violations	Disposition
15	Regulation B, Equal Credit Opportunity Act	46	Corrected
		24	Correction promised
		12	Correction requested
4	Regulation C, Home Mortgage Disclosure Act	5	Corrected
		3	Correction requested
2	Regulation D, Reserves of Member Banks	2	Corrected
1	Regulation H, Requirements of Membership	1	Correction requested
10	Regulation H, Loans in Identified Flood Hazard Areas	7	Corrected
		1	Correction promised
		2	Correction requested
2	Regulation I, Issue and Cancellation of Capital Stock of Federal Reserve Banks	2	Corrected
9	Regulation O, Loans to Executive Officers	19	Corrected
		7	Correction promised
		1	Correction requested
4	Regulation P, Bank Protection Act	4	Corrected
14	Regulation Q, Interest on Deposits	36	Corrected
		7	Correction promised
2	Regulation S, Bank Service Corporation Act	2	Corrected
7	Regulation U, Credit by Banks for the Purpose of Carrying Margin Stocks	14	Corrected
		10	Correction promised

Number of Banks	Law or Regulation	Number of Violations	Disposition
6	HUD Regulation X, Real Estate Settlement Procedures Act	7 1 15	Corrected Correction promised Correction requested
20	Regulation Z, Truth in Lending	164 70 75	Corrected Correction promised Correction requested
2	Section 11(m), Federal Reserve Act Loans on Stock or Bond Collateral	4	Corrected
6	Section 23A, Federal Reserve Act, Loans to Affiliates	6 1 1	Corrected Correction promised Correction requested
5	Section 24A, Federal Reserve Act, Investments in Bank Premises	10	Bank advised of violation and future compliance requested
3	Section 5199, Revised Statutes, Dividends, Accumulation of Surplus	1 2	Corrected Bank advised of violation and future compliance requested
4	PL 91:508, Bank Secrecy Act	4 2	Corrected Correction promised
1	Employee Retirement Income Security Act (ERISA)	37	Correction requested
2	Regulation 9, Comptroller of the Currency, collective investment funds	1 3	Corrected Correction requested
1	Tax Reform Act of 1969, administration of charitable trusts	3	Correction requested
3	Fair Housing Act	3	Correction promised
1	Financial Institutions Supervisory Act of 1966	5	Corrected
1	Federal Deposit Insurance Act, FDIC signs	2	Corrected
1	Internal Revenue Service Code, amortization of bond premiums in a municipal bond common trust fund	1	Correction promised
2	Section 5136, Revised Statutes, Investment Securities	2 2	Corrected Correction promised

Number of Banks	Law or Regulation	Number of Violations	Disposition
	STATE LAWS:		
13	Loans exceeding lending limitations	32	
16	Other	74	
3	Criminal Code, 3 Sections	4	Reported to appropriate authorities in all instances; in one case the individual was convicted and jailed.

FAILED STATE MEMBER BANKS
1972 - 1977

Name & Location of Bank	Date Closed	Total Assets	Total Deposits
Tri-City Bank Warren, Michigan	9-27-74	$16.2 million	$14.9 million

The principal causes of failure of this institution were speculative and unsound lending practices. There was also evidence of some self-dealing. Despite the fact that the Board issued a cease and desist order against the bank on June 30, 1971, management continued to be extremely uncooperative and the bank's condition worsened. In 1974, losses present in foreclosed real estate and marginal loans were of such magnitude as to preclude future viable operations.

State Bank of Clearing Chicago, Illinois	7-12-75	$74.4 million	$60.6 million

The principal cause of failure was an excessive and inadequately documented concentration of credit extended to finance construction of commercial real estate projects. The problems were exacerbated by the difficulties experienced in the real estate sector of the economy and the death of the bank's chief executive officer.

American Bank & Trust Company New York, New York	9-15-76	$224.5 million	$165.1 million

See the press release issued by the New York State Banking Department that was submitted and published in last year's Hearings on the Condition of the Banking System, pages 1023-25.

MERGERS, ACQUISITIONS BY HOLDING COMPANY
AND PURCHASE AND ASSUMPTION TRANSACTIONS
EFFECTED TO AVERT FAILURES
1972 - 1977

Name & Location of Bank	Type of Acquisition	Date	Total Assets	Total Deposits
Fidelity Bank Beverly Hills, California	Purchase & Assumption	4-19-72		
	Merger	7-15-72	$95 million	$78 million

The problem in this institution was an excessive concentration in speculative land development and other real estate loans, many of which proved uncollectible. The bank's earnings declined as the loans moved into a non-income producing status and capital was eroded as the problem loans were written off. On April 19, 1972, a newly organized State-member bank capitalized by the owners of a National bank purchased the assets and assumed the liabilities of Fidelity Bank. On July 15, 1972, the newly organized State-member bank was merged into the National bank.

Bank of the Commonwealth Detroit, Michigan	Acquisition by Holding Company	12-17-76	$930 million	$836 million

See the Board's Order approving acquisition of Bank of the Commonwealth by the First Arabian Corporation that was submitted and published in last year's Hearings on the Condition of the Banking System, pages 1027-31.

FEDERAL DEPOSIT INSURANCE CORPORATION, Washington, D.C. 20429

OFFICE OF THE CHAIRMAN

March 3, 1978

Honorable William Proxmire, Chairman
Committee on Banking, Housing and Urban Affairs
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

The enclosed information prepared by the FDIC staff is submitted in response to your request of December 15, 1977, seeking specific information with respect to the condition of the banking system.

In accordance with agreements reached in a January 10, 1978 meeting between Special Counsel to the Committee Marinaccio and representatives of the three Federal bank regulatory agencies, certain additions and deletions have been made in the originally requested material. Schedules dealing with problem banks include data for both commercial and mutual savings banks. Other schedules cover commercial banks only.

We wish to point out that the data derived from Reports of Condition and Reports of Income are based on statements of domestic activity in which foreign branches are shown as a net figure. In the attached tables, therefore, ratios such as capital to assets or income to assets tend to be overstated to the extent banks have foreign activity. As agreed, in lieu of a division of information by foreign and domestic operations, we are including a copy of the results of the recent interagency survey of country exposure.

For your convenience, an index has been included.

Sincerely,

George A. LeMaistre

George A. LeMaistre
Chairman

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(NOTE: Questions 4, 11, and 14 were agreed to be deleted as to the FDIC.)

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EXHIBIT A-1

STATE NONMEMBER COMMERCIAL BANKS
1972 - 1977

Question		Date	Total	Total Deposits in Domestic Offices: 0-100 Million	100-500 Million	500 Million-1 Billion	1-5 Billion	Over 5 Billion
	Number of Banks	12-31-72	8,036	7,887	130	18	1	0
		12-31-73	8,248	8,070	159	17	2	0
		12-31-74	8,473	8,271	182	17	3	0
		12-31-75	8,624	8,392	210	19	3	0
		12-31-76	8,680	8,411	243	15	11	0
		6-30-77	8,747	8,458	264	14	11	0
5a	Total Equity & Debt Capital (in millions)	12-31-72	11,395	8,444	1,859	1,014	78	0
		12-31-73	13,387	9,709	2,386	1,129	163	0
		12-31-74	15,373	11,034	2,905	1,139	295	0
		12-31-75	16,993	11,983	3,317	1,328	365	0
		12-31-76	18,769	12,976	3,805	882	1,106	0
		6-30-77	20,224	13,854	4,330	887	1,153	0
5b	Percentage of Equity Capital to Total Assets	12-31-72	7.3%	7.6%	6.8%	6.0%	5.1%	0
		12-31-73	7.3%	7.7%	6.7%	6.2%	5.3%	0
		12-31-74	7.6%	8.0%	6.8%	6.3%	6.3%	0
		12-31-75	7.6%	8.0%	6.9%	6.5%	6.5%	0
		12-31-76	7.6%	8.0%	6.9%	5.9%	6.2%	0
		6-30-77	7.7%	8.2%	7.0%	5.8%	6.2%	0
5c	Percentage of Equity Capital to Total Deposits	12-31-72	8.1%	8.4%	7.7%	6.9%	6.0%	0
		12-31-73	8.2%	8.6%	7.5%	7.2%	6.1%	0
		12-31-74	8.6%	9.0%	7.9%	7.4%	7.7%	0
		12-31-75	8.6%	9.0%	8.0%	7.5%	7.4%	0
		12-31-76	8.5%	8.9%	7.9%	7.0%	7.1%	0
		6-30-77	8.6%	9.1%	7.9%	7.0%	7.1%	0
5d	Percentage of Debt Capital to Total Capital	12-31-72	5.1%	2.9%	9.0%	15.5%	16.0%	0
		12-31-73	5.9%	3.3%	10.0%	17.1%	19.9%	0
		12-31-74	5.4%	3.1%	9.5%	15.0%	17.1%	0
		12-31-75	5.3%	3.1%	8.2%	14.5%	17.3%	0
		12-31-76	5.5%	3.0%	8.0%	17.7%	17.3%	0
		6-30-77	5.6%	3.1%	7.8%	19.2%	17.5%	0

EXHIBIT A-1

STATE NONMEMBER COMMERCIAL BANKS 1972 - 1977
(Continued)

Question		Date	Total	0-100 Million	100-500 Million	500 Million-1 Billion	1-5 Billion	Over 5 Billion
5e	Percentage of Total Capital to Total Assets	12-31-72	7.7%	7.8%	7.5%	7.1%	6.1%	0
		12-31-73	7.8%	8.0%	7.4%	7.5%	6.6%	0
		12-31-74	8.1%	8.3%	7.6%	7.4%	7.6%	0
		12-31-75	8.0%	8.3%	7.5%	7.6%	7.8%	0
		12-31-76	8.0%	8.3%	7.5%	7.2%	7.5%	0
		6-30-77	8.1%	8.4%	7.6%	7.2%	7.6%	0
5f	Percentage of Total Capital to Total Liabilities	12-31-72	8.3%	8.5%	8.1%	7.7%	6.5%	0
		12-31-73	8.5%	8.7%	8.0%	8.1%	7.1%	0
		12-31-74	8.8%	9.0%	8.2%	8.0%	8.3%	0
		12-31-75	8.8%	9.0%	8.1%	8.3%	8.5%	0
		12-31-76	8.7%	9.0%	8.2%	7.7%	8.1%	0
		6-30-77	8.8%	9.2%	8.2%	7.7%	8.2%	0
5g	Percentage of Total Capital to Risk Assets	12-31-72	10.7%	11.1%	10.0%	9.3%	8.8%	0
		12-31-73	10.4%	10.9%	9.5%	9.5%	9.1%	0
		12-31-74	10.6%	11.1%	9.8%	9.1%	10.2%	0
		12-31-75	10.9%	11.3%	10.1%	9.7%	10.6%	0
		12-31-76	10.8%	11.3%	10.1%	9.5%	9.9%	0
		6-30-77	10.8%	11.3%	10.0%	9.5%	9.9%	0
9a	Total Loans (excluding Federal funds) (in millions)	12-31-72	76,418	53,804	13,753	8,171	690	0
		12-31-73	91,242	62,664	18,377	8,763	1,438	0
		12-31-74	102,442	69,036	21,947	9,417	2,042	0
		12-31-75	110,437	74,398	23,532	10,033	2,474	0
		12-31-76	124,465	82,711	26,686	6,689	8,379	0
		6-30-77	137,595	90,694	31,448	6,626	8,827	0
9b	Percentage of Total Loans to Total Deposits	12-31-72	57.5%	55.3%	62.2%	65.8%	62.6%	0
		12-31-73	59.7%	57.3%	64.6%	67.6%	67.2%	0
		12-31-74	60.8%	58.1%	65.8%	71.6%	64.4%	0
		12-31-75	59.0%	57.4%	61.4%	66.5%	61.0%	0
		12-31-76	59.5%	58.3%	60.3%	64.8%	64.8%	0
		6-30-77	62.1%	61.4%	62.3%	65.1%	66.2%	0
9c	Percentage of Net Loan Losses to Average Total Loans	12-31-72	.2%	.2%	.2%	.3%	.1%	0
		12-31-73	.2%	.2%	.2%	.2%	.3%	0
		12-31-74	.4%	.4%	.4%	.3%	.3%	0
		12-31-75	.5%	.4%	.5%	.7%	.3%	0
		12-31-76	.5%	.5%	.5%	.7%	.5%	0
		6-30-77	.2%	.1%	.2%	.7%	.2%	0

EXHIBIT A-1

STATE NONMEMBER COMMERCIAL BANKS 1972 - 1977
(Continued)

Question		Date	Total	0-100 Million	100-500 Million	500 Million-1 Billion	1-5 Billion	Over 5 Billion
10a	Total 30 Day Average Borrowings (in millions)	12-31-72	1,281	428	331	437	85	0
		12-31-73	2,050	809	599	547	95	0
		12-31-74	3,236	1,082	1,254	667	233	0
		12-31-75	3,194	976	1,471	662	85	0
		12-31-76	3,672	941	1,599	829	303	0
		6-30-77	4,064	1,137	1,586	1,044	297	0
10b	Percentage of 30 Day Average Borrowings to 30 Day Average Deposits	12-31-72	1.0%	.4%	1.5%	3.5%	7.7%	0
		12-31-73	1.3%	.7%	2.1%	4.2%	4.4%	0
		12-31-74	1.9%	.9%	3.8%	5.1%	7.4%	0
		12-31-75	1.7%	.8%	3.8%	4.4%	2.1%	0
		12-31-76	1.8%	.7%	3.6%	8.0%	2.3%	0
		6-30-77	1.8%	.8%	3.1%	10.3%	2.2%	0
12	Total Other Real Estate (in millions)	12-31-72	127	102	17	8	0	0
		12-31-73	152	118	23	8	3	0
		12-31-74	226	168	40	12	6	0
		12-31-75	410	259	115	30	6	0
		12-31-76	508	289	169	34	16	0
		6-30-77	552	308	185	40	19	0
13a	Percentage of Net Income to Average Total Assets	12-31-72	.8%	.9%	.8%	.8%	.4%	0
		12-31-73	1.0%	1.0%	.9%	.8%	.6%	0
		12-31-74	.9%	1.0%	.8%	.7%	.8%	0
		12-31-75	.8%	.9%	.7%	.9%	.4%	0
		12-31-76	.9%	.9%	.8%	.7%	.7%	0
		6-30-77(a)	.5%	.5%	.4%	.2%	.3%	0
13b	Percentage of Net Income to Average Equity Capital	12-31-72	11.6%	11.4%	11.9%	13.5%	7.6%	0
		12-31-73	12.8%	12.7%	13.4%	12.9%	12.7%	0
		12-31-74	12.0%	12.0%	12.2%	11.0%	13.4%	0
		12-31-75	10.7%	10.8%	10.3%	13.4%	6.0%	0
		12-31-76	11.1%	11.2%	10.7%	10.9%	10.8%	0
		6-30-77(a)	6.2%	6.5%	6.1%	3.0%	5.2%	0

(a) 1977 earnings data is from 6 month results as shown in 6-30-77 Reports of Income and is therefore not comparable with annual data for 1972 - 1976.

STATE NONMEMBER COMMERCIAL BANKS 1972 - 1977
(Continued)

Question		Date	Total	0-100 Million	100-500 Million	500 Million-1 Billion	1-5 Billion	Over 5 Billion
13c	Percentage of Net Interest Margin to Average Earning Assets	12-31-72(b)	.0%	.0%	.0%	.0%	.0%	0
		12-31-73	4.0%	4.0%	4.1%	3.4%	6.4%	0
		12-31-74	4.1%	4.1%	4.0%	3.5%	4.9%	0
		12-31-75	4.0%	4.0%	4.0%	4.7%	2.5%	0
		12-31-76	4.2%	4.1%	4.3%	3.9%	4.7%	0
		6-30-77(a)	2.1%	2.1%	2.1%	1.9%	2.2%	0
15	Total Standby Letters of Credit (in millions)	12-31-72(b)	0	0	0	0	0	0
		12-31-73(b)	0	0	0	0	0	0
		12-31-74(b)	0	0	0	0	0	0
		12-31-75(b)	0	0	0	0	0	0
		12-31-76	1,635	256	1,163	63	153	0
		6-30-77	809	227	259	104	219	0

(a) 1977 earnings data is from 6 month results as shown in 6-30-77 Reports of Income and is therefore not comparable with annual data for 1972 - 1976.

(b) Data not collected for this period.

FEDERAL DEPOSIT INSURANCE CORPORATION, Washington, D.C. 20429

OFFICE OF THE CHAIRMAN

April 27, 1978

Honorable William Proxmire, Chairman
Committee on Banking, Housing and Urban Affairs
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

On March 3, 1978, we sent you various information in response to your request regarding the condition of the banking system. Enclosed is a revised Exhibit A-1 to that previous submission.

The revised exhibit presents report of condition and report of income data for State nonmember commercial banks using consolidated domestic and foreign statements. The previous report used domestic data only. In addition, we are now able, in the revised attachment, to give you year-end 1977 figures as opposed to the mid-year 1977 figures submitted previously.

It is our understanding that the Comptroller of the Currency and the Federal Reserve Board will also be submitting revised exhibits to you for the banks under their supervision.

Sincerely,

George A. Le Maistre

George A. LeMaistre
Chairman

Enclosure

EXHIBIT A-1

STATE NONMEMBER COMMERCIAL BANKS
1972 - 1977

Question		Date	Total	Total Deposits: 0-100 Million	100-500 Million	500 Million-1 Billion	1-5 Billion	Over 5 Billion
	Number of Banks	12-31-72	8,036	7,887	130	18	1	0
		12-31-73	8,248	8,070	159	17	2	0
		12-31-74	8,473	8,271	182	17	3	0
		12-31-75	8,624	8,392	210	19	3	0
		12-31-76	8,680	8,411	243	15	11	0
		12-31-77	8,773	8,449	296	13	15	0
5a	Total Equity & Debt Capital (in millions)	12-31-72	11,395	8,444	1,859	1,014	78	0
		12-31-73	13,387	9,709	2,386	1,129	163	0
		12-31-74	15,358	11,034	2,904	1,129	291	0
		12-31-75	16,975	11,982	3,316	1,318	359	0
		12-31-76	18,769	12,976	3,805	882	1,106	0
		12-31-77	21,391	14,379	4,785	721	1,506	0
5b	Percentage of Equity Capital to Total Assets	12-31-72	7.3%	7.6%	6.8%	6.0%	5.1%	0
		12-31-73	7.3%	7.7%	6.7%	6.2%	5.3%	0
		12-31-74	7.6%	8.0%	6.8%	6.1%	5.6%	0
		12-31-75	7.6%	8.0%	6.9%	6.4%	5.5%	0
		12-31-76	7.5%	8.0%	6.9%	5.7%	5.9%	0
		12-31-77	7.3%	7.9%	6.7%	5.9%	5.4%	0
5c	Percentage of Equity Capital to Total Deposits	12-31-72	8.1%	8.4%	7.7%	6.9%	6.0%	0
		12-31-73	8.2%	8.6%	7.5%	7.2%	6.1%	0
		12-31-74	8.6%	9.0%	7.9%	7.3%	7.6%	0
		12-31-75	8.6%	9.0%	7.9%	7.5%	7.3%	0
		12-31-76	8.4%	8.9%	7.9%	6.7%	6.6%	0
		12-31-77	8.2%	8.8%	7.6%	7.0%	6.2%	0
5d	Percentage of Debt Capital to Total Capital	12-31-72	5.1%	2.9%	9.0%	15.5%	16.0%	0
		12-31-73	5.9%	3.3%	10.0%	17.1%	19.9%	0
		12-31-74	5.4%	3.1%	9.5%	15.2%	17.3%	0
		12-31-75	5.3%	3.1%	8.2%	14.6%	17.6%	0
		12-31-76	5.5%	3.0%	8.0%	17.7%	17.3%	0
		12-31-77	6.0%	3.3%	8.6%	14.1%	19.4%	0

EXHIBIT A-1

STATE NONMEMBER COMMERCIAL BANKS 1972- 1977
(Continued)

Question		Date	Total	0-100 Million	100-500 Million	500 Million-1 Billion	1-5 Billion	Over 5 Billion
5e	Percentage of Total Capital to Total Assets	12-31-72	7.7%	7.8%	7.5%	7.1%	6.1%	0
		12-31-73	7.8%	8.0%	7.4%	7.5%	6.6%	0
		12-31-74	8.0%	8.3%	7.5%	7.2%	6.7%	0
		12-31-75	8.0%	8.3%	7.5%	7.5%	6.7%	0
		12-31-76	7.9%	8.3%	7.5%	6.9%	7.1%	0
		12-31-77	7.8%	8.2%	7.4%	6.8%	6.6%	0
5f	Percentage of Total Capital to Total Liabilities	12-31-72	8.3%	8.5%	8.1%	7.7%	6.5%	0
		12-31-73	8.5%	8.7%	8.0%	8.1%	7.1%	0
		12-31-74	8.7%	9.0%	8.1%	7.8%	7.2%	0
		12-31-75	8.8%	9.0%	8.1%	8.3%	8.5%	0
		12-31-76	8.6%	9.0%	8.1%	7.4%	7.6%	0
		12-31-77	8.5%	8.9%	7.9%	7.3%	7.1%	0
5g	Percentage of Total Capital to Risk Assets	12-31-72	10.7%	11.1%	10.0%	9.3%	8.8%	0
		12-31-73	10.4%	10.9%	9.5%	9.5%	9.1%	0
		12-31-74	10.6%	11.1%	9.7%	8.8%	9.0%	0
		12-31-75	10.9%	11.3%	10.1%	9.5%	9.1%	0
		12-31-76	10.8%	11.3%	10.1%	9.4%	9.3%	0
		12-31-77	10.5%	10.9%	9.8%	9.0%	9.0%	0
9a	Total Loans (excluding Federal funds) (in millions)	12-31-72	76,418	53,804	13,753	8,171	690	0
		12-31-73	91,242	62,664	18,377	8,763	1,438	0
		12-31-74	103,218	69,107	21,968	9,745	2,398	0
		12-31-75	111,344	74,431	23,565	10,301	3,047	0
		12-31-76	125,492	82,712	26,724	6,883	9,173	0
		12-31-77	150,443	96,273	35,322	5,904	12,944	0
9b	Percentage of Total Loans to Total Deposits	12-31-72	57.5%	55.3%	62.2%	65.8%	62.6%	0
		12-31-73	59.7%	57.3%	64.6%	67.6%	67.2%	0
		12-31-74	61.3%	58.2%	65.8%	73.8%	75.7%	0
		12-31-75	59.5%	57.4%	61.5%	68.2%	75.1%	0
		12-31-76	59.5%	58.3%	60.2%	63.6%	66.4%	0
		12-31-77	61.5%	60.7%	61.3%	66.7%	65.8%	0
9c	Percentage of Net Loan Losses to Average Total Loans	12-31-72	.2%	.2%	.2%	.3%	.1%	0
		12-31-73	.2%	.2%	.2%	.2%	.3%	0
		12-31-74	.4%	.4%	.3%	.4%	.3%	0
		12-31-75	.5%	.4%	.5%	.6%	.2%	0
		12-31-76	.5%	.5%	.6%	.6%	.5%	0
		12-31-77	.4%	.3%	.4%	1.0%	.5%	0

EXHIBIT A-1

STATE NONMEMBER COMMERCIAL BANKS 1972 - 1977
(Continued)

Question		Date	Total	0-100 Million	100-500 Million	500 Million-1 Billion	1-5 Billion	Over 5 Billion
10a	Total 30 Day Average Borrowings (in millions)	12-31-72	1,281	428	331	437	85	0
		12-31-73	2,050	809	599	547	95	0
		12-31-74	3,236	1,082	1,254	667	233	0
		12-31-75	3,194	976	1,471	662	85	0
		12-31-76	3,672	941	1,599	829	303	0
		12-31-77	4,799	1,165	1,984	789	861	0
10b	Percentage of 30 Day Average Borrowings to 30 Day Average Deposits	12-31-72	1.0%	.4%	1.5%	3.5%	7.7%	0
		12-31-73	1.3%	.7%	2.1%	4.2%	4.4%	0
		12-31-74	1.9%	.9%	3.8%	5.1%	7.4%	0
		12-31-75	1.7%	.8%	3.8%	4.4%	2.1%	0
		12-31-76	1.8%	.7%	3.6%	7.8%	2.0%	0
		12-31-77	1.9%	.7%	3.1%	8.6%	4.4%	0
12	Total Other Real Estate (in millions)	12-31-72	127	102	17	8	0	0
		12-31-73	152	118	23	8	3	0
		12-31-74	226	168	40	12	6	0
		12-31-75	410	259	115	30	6	0
		12-31-76	508	289	169	34	16	0
		12-31-77	541	280	180	40	41	0
13a	Percentage of Net Income to Average Total Assets	12-31-72	.9%	.9%	.9%	.9%	.4%	0
		12-31-73	1.0%	1.0%	.9%	.8%	.6%	0
		12-31-74	.9%	1.0%	.8%	.8%	.8%	0
		12-31-75	.8%	.9%	.7%	.9%	.4%	0
		12-31-76	.9%	.9%	.8%	.6%	.7%	0
		12-31-77	.9%	1.0%	.8%	.4%	.8%	0
13b	Percentage of Net Income to Average Equity Capital	12-31-72	12.0%	11.5%	13.4%	14.8%	7.8%	0
		12-31-73	13.0%	12.9%	13.6%	13.1%	12.7%	0
		12-31-74	12.2%	12.2%	12.0%	12.4%	13.9%	0
		12-31-75	10.9%	10.9%	10.5%	13.7%	6.2%	0
		12-31-76	11.1%	11.3%	10.8%	9.5%	12.1%	0
		12-31-77	12.0%	12.1%	12.2%	6.5%	13.7%	0

EXHIBIT A-1

STATE NONMEMBER COMMERCIAL BANKS 1972 - 1977
(Continued)

Question		Date	Total	0-100 Million	100-500 Million	500 Million-1 Billion	1-5 Billion	Over 5 Billion
13c	Percentage of Net Interest Margin to Average Earning Assets	12-31-72(a)	.0%	.0%	.0%	.0%	.0%	0
		12-31-73	4.0%	4.0%	4.1%	3.4%	6.4%	0
		12-31-74	4.1%	4.2%	4.0%	3.7%	4.9%	0
		12-31-75	4.0%	4.0%	4.1%	4.6%	2.2%	0
		12-31-76	4.2%	4.1%	4.3%	3.5%	4.8%	0
		12-31-77	4.2%	4.2%	4.3%	3.3%	5.1%	0
15	Total Standby Letters of Credit (in millions)	12-31-72(a)	0	0	0	0	0	0
		12-31-73(a)	0	0	0	0	0	0
		12-31-74(a)	0	0	0	0	0	0
		12-31-75(a)	0	0	0	0	0	0
		12-31-76	1,635	256	1,163	63	153	0
		12-31-77	938	282	281	74	301	0

(a) Data not collected for this period.

EXHIBIT A-2

STATE MEMBER BANKS
1972 - 1977

Question		Date	Total	Total Deposits In Domestic Offices: 0-100 Million	100-500 Million	500 Million-1 Billion	1-5 Billion	Over 5 Billion
	Number of Banks	12-31-72	1,094	965	90	19	16	4
		12-31-73	1,078	950	89	17	17	5
		12-31-74	1,072	950	84	14	18	6
		12-31-75	1,046	915	90	19	16	6
		12-31-76	1,023	885	99	18	15	6
		6-30-77	1,019	888	93	18	14	6
5a	Total Equity & Debt Capital (in millions)	12-31-72	11,166	1,618	1,686	1,260	3,212	3,390
		12-31-73	11,917	1,746	1,766	1,205	3,163	4,037
		12-31-74	12,683	1,935	1,806	982	3,099	4,861
		12-31-75	13,466	1,925	1,832	1,405	3,013	5,291
		12-31-76	14,555	1,927	1,867	1,366	3,342	6,053
		6-30-77	14,850	2,039	1,821	1,442	3,310	6,238
5b	Percentage of Equity Capital to Total Assets	12-31-72	6.7%	7.5%	7.1%	7.0%	6.4%	6.2%
		12-31-73	6.6%	7.7%	7.2%	7.1%	6.4%	5.9%
		12-31-74	6.5%	8.1%	7.6%	7.1%	6.5%	5.6%
		12-31-75	6.9%	8.0%	7.6%	7.7%	6.9%	6.2%
		12-31-76	7.0%	8.1%	7.2%	7.7%	6.8%	6.5%
		6-30-77	6.9%	8.2%	7.2%	7.8%	6.7%	6.3%
5c	Percentage of Equity Capital to Total Deposits	12-31-72	8.0%	8.4%	8.2%	8.2%	7.9%	7.8%
		12-31-73	8.2%	8.6%	8.5%	8.7%	8.1%	7.8%
		12-31-74	8.0%	9.1%	8.9%	8.9%	8.1%	7.1%
		12-31-75	8.6%	9.0%	8.8%	9.5%	8.6%	8.1%
		12-31-76	8.8%	9.0%	8.3%	9.7%	8.7%	8.8%
		6-30-77	8.8%	9.2%	8.4%	9.8%	8.7%	8.6%
5d	Percentage of Debt Capital To Total Capital	12-31-72	11.4%	3.2%	5.2%	11.0%	11.0%	18.8%
		12-31-73	9.5%	3.5%	5.2%	10.5%	9.2%	14.0%
		12-31-74	9.2%	3.1%	5.3%	8.6%	11.7%	11.5%
		12-31-75	8.9%	2.5%	5.0%	8.1%	11.7%	11.3%
		12-31-76	9.3%	2.4%	5.3%	8.6%	11.2%	11.9%
		6-30-77	9.5%	2.6%	5.9%	8.1%	11.0%	12.3%

EXHIBIT A-2

STATE MEMBER BANKS 1972 - 1977
(Continued)

Question		Date	Total	0-100 Million	100-500 Million	500 Million-1 Billion	1-5 Billion	Over 5 Billion
5e	Percentage of Total Capital to Total Assets	12-31-72	7.5%	7.8%	7.5%	7.8%	7.2%	7.6%
		12-31-73	7.2%	8.0%	7.6%	8.0%	7.0%	6.8%
		12-31-74	7.1%	8.3%	8.0%	7.7%	7.3%	6.3%
		12-31-75	7.6%	8.2%	8.0%	8.4%	7.8%	7.0%
		12-31-76	7.7%	8.3%	7.7%	8.5%	7.7%	7.4%
		6-30-77	7.6%	8.4%	7.7%	8.5%	7.5%	7.2%
5f	Percentage of Total Capital to Total Liabilities	12-31-72	8.1%	8.4%	8.1%	8.5%	7.7%	8.2%
		12-31-73	7.8%	8.7%	8.2%	8.6%	7.5%	7.3%
		12-31-74	7.7%	9.1%	8.7%	8.4%	7.9%	6.7%
		12-31-75	8.2%	9.0%	8.7%	9.2%	8.4%	7.5%
		12-31-76	8.3%	9.0%	8.3%	9.2%	8.3%	7.9%
		6-30-77	8.2%	9.2%	8.3%	9.3%	8.1%	7.8%
5g	Percentage of Total Capital to Risk Assets	12-31-72	10.6%	11.1%	10.3%	10.2%	10.0%	11.2%
		12-31-73	9.8%	11.0%	10.1%	10.0%	9.3%	9.5%
		12-31-74	9.4%	11.3%	10.4%	9.7%	9.5%	8.4%
		12-31-75	10.4%	11.5%	10.7%	11.1%	10.3%	9.7%
		12-31-76	10.7%	11.4%	10.6%	11.0%	10.7%	10.6%
		6-30-77	10.8%	11.4%	10.5%	11.4%	10.9%	10.5%
9a	Total Loans (excluding Federal funds) (in millions)	12-31-72	78,607	10,350	11,543	8,724	24,546	23,444
		12-31-73	92,671	11,367	12,497	8,579	25,963	34,265
		12-31-74	100,477	12,175	12,533	7,005	24,092	44,672
		12-31-75	93,861	11,973	12,160	8,938	20,618	40,172
		12-31-76	95,542	12,067	12,486	8,301	21,145	40,543
		6-30-77	95,042	13,169	12,541	8,993	20,622	39,717
9b	Percentage of Total Loans to Total Deposits	12-31-72	63.8%	55.2%	59.1%	63.8%	67.9%	66.8%
		12-31-73	70.5%	58.1%	63.5%	68.9%	73.4%	77.3%
		12-31-74	69.8%	59.0%	65.2%	69.3%	71.6%	74.2%
		12-31-75	65.4%	57.5%	61.5%	66.0%	66.5%	69.0%
		12-31-76	63.2%	57.8%	58.9%	64.7%	61.9%	67.0%
		6-30-77	62.3%	61.1%	61.4%	66.6%	61.1%	62.8%
9c	Percentage of Net Loan Losses to Average Total Loans	12-31-72	.2%	.2%	.2%	.3%	.2%	.2%
		12-31-73	.2%	.2%	.2%	.2%	.3%	.2%
		12-31-74	.4%	.4%	.3%	.3%	.4%	.5%
		12-31-75	.7%	.3%	.5%	.6%	.7%	1.0%
		12-31-76	.9%	.3%	.6%	.8%	.9%	1.1%
		6-30-77(a)	.3%	.1%	.1%	.2%	.2%	.4%

(a) 1977 earnings data is from 6 month results as shown in 6-30-77 Reports of Income and is therefore not comparable with annual data for 1972 - 1976.

EXHIBIT A-2

STATE MEMBER BANKS 1972 - 1977
(Continued)

Question		Date	Total	0-100 Million	100-500 Million	500 Million-1 Billion	1-5 Billion	Over 5 Billion
10a	Total 30 Day Average Borrowings (in millions)	12-31-72	9,651	101	911	886	3,511	4,242
		12-31-73	15,914	217	1,336	1,069	5,117	8,175
		12-31-74	13,182	239	1,124	1,215	3,810	6,794
		12-31-75	12,771	258	946	1,172	3,465	6,930
		12-31-76	23,064	279	1,061	1,609	5,934	14,181
		6-30-77	23,532	359	1,153	1,696	6,027	14,297
10b	Percentage of 30 Day Average Borrowings to 30 Day Average Deposits	12-31-72	7.8%	.5%	4.7%	6.5%	9.7%	12.1%
		12-31-73	12.1%	1.1%	6.8%	8.6%	14.5%	18.5%
		12-31-74	9.2%	1.2%	5.8%	12.0%	11.3%	11.3%
		12-31-75	8.9%	1.2%	4.8%	8.7%	11.2%	11.9%
		12-31-76	15.4%	1.3%	5.0%	12.5%	17.4%	23.4%
		6-30-77	15.4%	1.7%	5.6%	12.6%	17.9%	22.6%
12	Total Other Real Estate (in millions)	12-31-72	81	15	24	13	9	20
		12-31-73	82	17	15	19	11	20
		12-31-74	208	22	29	35	36	86
		12-31-75	463	31	64	87	66	215
		12-31-76	637	29	77	111	97	323
		6-30-77	656	32	61	104	113	346
13a	Percentage of Net Income to Average Total Assets	12-31-72	.7%	.8%	.8%	.7%	.7%	.7%
		12-31-73	.8%	.9%	.9%	.8%	.8%	.7%
		12-31-74	.7%	.8%	.8%	.6%	.7%	.7%
		12-31-75	.7%	.8%	.8%	.7%	.6%	.7%
		12-31-76	.7%	.9%	.8%	.7%	.7%	.7%
		6-30-77(a)	.4%	.5%	.4%	.4%	.3%	.3%
13b	Percentage of Net Income to Average Equity Capital	12-31-72	11.0%	11.3%	11.9%	10.3%	10.3%	11.5%
		12-31-73	11.9%	11.4%	12.4%	11.1%	12.3%	11.7%
		12-31-74	11.1%	10.5%	11.0%	8.0%	11.0%	12.6%
		12-31-75	10.6%	10.1%	9.8%	9.9%	9.3%	12.1%
		12-31-76	10.2%	10.4%	10.5%	9.4%	10.0%	10.4%
		6-30-77(a)	5.1%	6.2%	5.6%	4.7%	4.5%	5.1%

(a) 1977 earnings data is from 6 month results as shown in 6-30-77 Reports of Income and is therefore not comparable with annual data for 1972 - 1976.

EXHIBIT A-2

STATE MEMBER BANKS 1972 - 1977
(Continued)

Question		Date	Total	0-100 Million	100-500 Million	500 Million-1 Billion	1-5 Billion	Over 5 Billion
13c	Percentage of Net Interest Margin to Average Earning Assets	12-31-72(b)	.0%	.0%	.0%	.0%	.0%	.0%
		12-31-73	3.3%	3.6%	3.7%	3.1%	3.4%	3.0%
		12-31-74	3.4%	3.8%	3.8%	2.7%	3.3%	3.3%
		12-31-75	3.6%	3.6%	3.9%	7.0%	3.6%	3.5%
		12-31-76	4.3%	3.6%	4.1%	3.6%	4.2%	4.7%
		6-30-77(a)	2.1%	1.9%	2.0%	1.9%	1.9%	2.4%
15	Total Standby Letters of Credit (in millions)	12-31-72(b)	0	0	0	0	0	0
		12-31-73(b)	0	0	0	0	0	0
		12-31-74(b)	0	0	0	0	0	0
		12-31-75(b)	0	0	0	0	0	0
		12-31-76	3,923	19	93	80	619	3,112
		6-30-77	4,634	27	105	82	691	3,729

(a) 1977 earnings data is from 6 month results as shown in 6-30-77 Reports of Income and is therefore not comparable with annual data for 1972 - 1976.

(b) Data not collected for this period.

EXHIBIT A-3

NATIONAL BANKS
1972 - 1977

Question		Date	Total	Total Deposits in Domestic Offices: 0-100 Million	100-500 Million	500 Million-1 Billion	1-5 Billion	Over 5 Billion
	Number of Banks	12-31-72	4,659	4,231	318	59	43	8
		12-31-73	4,711	4,244	353	60	46	8
		12-31-74	4,762	4,269	373	63	47	10
		12-31-75	4,797	4,261	411	65	51	9
		12-31-76	4,791	4,212	447	65	58	9
		6-30-77	4,757	4,166	452	71	59	9
5a	Total Equity & Debt Capital (in millions)	12-31-72	31,086	7,472	5,463	3,558	6,585	8,008
		12-31-73	33,943	8,192	6,157	3,608	7,347	8,639
		12-31-74	36,780	8,861	6,556	3,900	7,220	10,243
		12-31-75	39,895	9,309	7,092	3,973	8,570	10,951
		12-31-76	44,046	9,750	7,739	4,014	9,889	12,654
		6-30-77	45,962	10,096	7,970	4,398	10,268	13,230
5b	Percentage of Equity Capital to Total Assets	12-31-72	6.7%	7.2%	6.6%	6.7%	6.3%	6.7%
		12-31-73	6.5%	7.4%	6.6%	6.5%	6.1%	6.3%
		12-31-74	6.5%	7.6%	6.8%	6.6%	5.9%	6.0%
		13-31-75	6.8%	7.6%	6.8%	6.6%	6.5%	6.6%
		12-31-76	7.0%	7.7%	6.8%	6.5%	6.6%	7.3%
		6-30-77	7.1%	7.8%	7.1%	6.6%	6.6%	7.4%
5c	Percentage of Equity Capital to Total Deposits	12-31-72	8.0%	8.0%	7.6%	8.0%	7.9%	8.4%
		12-31-73	8.0%	8.2%	7.7%	7.9%	8.0%	8.0%
		12-31-74	8.0%	8.6%	8.0%	8.1%	7.8%	7.5%
		12-31-75	8.4%	8.6%	8.0%	8.1%	8.4%	8.5%
		12-31-76	8.8%	8.6%	7.9%	7.9%	8.8%	9.8%
		6-30-77	9.0%	8.7%	8.2%	8.1%	9.0%	10.2%
5d	Percentage of Debt Capital to Total Capital	12-31-72	6.8%	2.6%	5.9%	7.1%	12.8%	6.4%
		12-31-73	6.5%	3.0%	6.8%	7.2%	10.4%	5.9%
		12-31-74	6.1%	3.1%	5.6%	6.8%	11.9%	4.8%
		12-31-75	5.7%	3.2%	5.5%	6.5%	10.0%	4.5%
		12-31-76	6.2%	3.4%	5.8%	6.8%	10.0%	5.4%
		6-30-77	6.1%	3.5%	6.0%	7.2%	9.7%	5.1%

EXHIBIT A-3

NATIONAL BANKS 1972 - 1977
(Continued)

Question		Date	Total	0-100 Million	100-500 Million	500 Million-1 Billion	1-5 Billion	Over 5 Billion
5e	Percentage of Total Capital to Total Assets	12-31-72	7.2%	7.4%	7.0%	7.3%	7.2%	7.2%
		12-31-73	7.0%	7.6%	7.0%	7.0%	6.8%	6.7%
		12-31-74	6.9%	7.9%	7.2%	7.0%	6.7%	6.3%
		12-31-75	7.3%	7.9%	7.2%	7.0%	7.2%	7.0%
		12-31-76	7.5%	7.9%	7.2%	7.0%	7.3%	7.7%
		6-30-77	7.6%	8.1%	7.5%	7.2%	7.3%	7.8%
5f	Percentage of Total Capital to Total Liabilities	12-31-72	7.8%	8.0%	7.6%	7.8%	7.8%	7.7%
		12-31-73	7.5%	8.2%	7.6%	7.5%	7.3%	7.1%
		12-31-74	7.5%	8.5%	7.8%	7.6%	7.2%	6.7%
		12-31-75	7.8%	8.6%	7.8%	7.6%	7.7%	7.5%
		12-31-76	8.1%	8.6%	7.8%	7.5%	7.9%	8.4%
		6-30-77	8.2%	8.8%	8.1%	7.7%	7.8%	8.4%
5g	Percentage of Total Capital to Risk Assets	12-31-72	9.8%	10.5%	9.6%	9.8%	9.5%	9.6%
		12-31-73	9.2%	10.4%	9.3%	9.1%	8.7%	8.5%
		12-31-74	9.0%	10.5%	9.5%	9.1%	8.5%	8.0%
		12-31-75	9.7%	10.9%	9.8%	9.3%	9.4%	9.2%
		12-31-76	10.0%	10.9%	9.9%	9.2%	9.7%	9.9%
		6-30-77	10.0%	10.9%	10.1%	9.5%	9.5%	9.8%
9a	Total loans (excluding Federal funds) (in millions)	12-31-72	228,393	49,799	39,922	25,707	48,944	64,021
		12-31-73	269,148	55,109	47,034	28,458	59,930	78,617
		12-31-74	296,017	57,964	48,564	30,098	59,555	99,836
		12-31-75	290,494	59,371	49,634	29,314	61,368	90,807
		12-31-76	305,935	63,015	53,938	29,428	67,022	92,532
		6-30-77	318,925	66,909	55,998	33,108	72,630	90,280
9b	Percentage of Total Loans To Total Deposits	12-31-72	63.3%	54.8%	59.3%	62.5%	67.4%	72.2%
		12-31-73	67.7%	57.0%	63.2%	67.0%	73.2%	77.1%
		12-31-74	68.2%	57.8%	62.7%	67.0%	73.0%	77.0%
		12-31-75	64.5%	56.6%	59.0%	63.7%	66.8%	73.6%
		12-31-76	64.8%	57.2%	58.8%	62.4%	66.1%	76.1%
		6-30-77	66.5%	59.9%	61.5%	65.8%	70.4%	73.3%
9c	Percentage of Net Loan Losses to Average Total Loans	12-31-72	.2%	.2%	.2%	.3%	.2%	.2%
		12-31-73	.3%	.2%	.2%	.2%	.3%	.4%
		12-31-74	.4%	.3%	.4%	.5%	.5%	.4%
		12-31-75	.7%	.4%	.5%	.6%	.6%	1.1%
		12-31-76	.7%	.4%	.5%	.6%	.7%	1.2%
		6-30-77(a)	.2%	.1%	.1%	.2%	.2%	.4%

(a) 1977 earnings data is from 6 month results as shown in 6-30-77 Reports of Income and

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EXHIBIT A-3

NATIONAL BANKS 1972 - 1977
(Continued)

Question		Date	Total	0-100 Million	100-500 Million	500 Million-1 Billion	1-5 Billion	Over 5 Billion
10a	Total 30 Day Average Borrowings (in millions)	12-31-72	26,719	759	3,196	3,376	9,929	9,459
		12-31-73	39,697	1,329	4,665	4,557	15,480	13,666
		12-31-74	39,662	1,641	4,976	4,987	14,047	14,011
		12-31-75	40,875	1,509	4,843	4,517	14,810	15,196
		12-31-76	56,033	1,587	6,172	5,460	20,796	22,018
		6-30-77	58,954	1,828	6,102	5,434	22,978	22,612
10b	Percentage of 30 Day Average Borrowings to 30 Day Average Deposits	12-31-72	7.4%	.8%	4.7%	8.2%	13.7%	10.7%
		12-31-73	10.0%	1.4%	6.3%	10.7%	18.9%	13.4%
		12-31-74	9.1%	1.6%	6.4%	11.1%	17.2%	10.8%
		12-31-75	9.1%	1.4%	5.8%	9.8%	16.1%	12.3%
		12-31-76	11.9%	1.4%	6.7%	11.6%	20.5%	18.1%
		6-30-77	12.3%	1.6%	6.7%	10.8%	22.3%	18.4%
12	Total Other Real Estate (in millions)	12-31-72	161	47	33	24	41	16
		12-31-73	199	53	39	24	59	24
		12-31-74	377	82	79	63	114	39
		12-31-75	1,036	128	188	157	346	217
		12-31-76	1,748	158	229	236	588	537
		6-30-77	1,850	165	236	210	662	577
13a	Percentage of Net Income to Average Total Assets	12-31-72	.8%	.8%	.8%	.8%	.7%	.7%
		12-31-73	.8%	.9%	.8%	.7%	.8%	.8%
		12-31-74	.8%	.9%	.7%	.7%	.6%	.9%
		12-31-75	.8%	.8%	.7%	.6%	.8%	.9%
		12-31-76	.8%	.9%	.8%	.7%	.8%	.9%
		6-30-77(a)	.4%	.5%	.4%	.4%	.4%	.4%
13b	Percentage of Net Income to Average Equity Capital	12-31-72	11.4%	11.6%	11.7%	11.6%	11.4%	11.0%
		12-31-73	12.2%	12.3%	12.1%	11.3%	12.7%	12.3%
		12-31-74	11.9%	11.6%	11.1%	10.7%	10.2%	14.6%
		12-31-75	11.6%	10.6%	10.4%	9.2%	12.0%	14.3%
		12-31-76	11.5%	11.1%	11.0%	9.6%	11.1%	13.1%
		6-30-77(a)	5.8%	6.2%	5.8%	5.4%	5.7%	5.7%

(a) 1977 earnings data is from 6 month results as shown in 6-30-77 Reports of Income and is therefore not comparable with annual data for 1972 - 1976.

NATIONAL BANKS 1972 - 1977
(Continued)

EXHIBIT A-3

Question		Date	Total	0-100 Million	100-500 Million	500 Million-1 Billion	1-5 Billion	Over 5 Billion
13c	Percentage of Net Interest Margin to Average Earning Assets	12-31-72 (b)	.0%	.0%	.0%	.0%	.0%	.0%
		12-31-73	3.4%	3.8%	3.6%	3.3%	3.3%	2.9%
		12-31-74	3.4%	3.9%	3.6%	3.6%	3.0%	3.2%
		12-31-75	3.6%	3.8%	3.8%	3.4%	3.6%	3.4%
		12-31-76	4.3%	3.9%	4.0%	3.5%	4.1%	5.5%
		6-30-77 (a)	2.2%	2.0%	2.0%	1.9%	2.0%	2.7%
15	Total Standby Letters of Credit (in millions)	12-31-72 (b)	0	0	0	0	0	0
		12-31-73 (b)	0	0	0	0	0	0
		12-31-74 (b)	0	0	0	0	0	0
		12-31-75 (b)	0	0	0	0	0	0
		12-31-76	7,500	176	510	384	1,433	4,997
		6-30-77	8,356	257	483	445	1,641	5,530

(a) 1977 earnings data is from 6 month results as shown in 6-30-77 Reports of Income and is therefore not comparable with annual data for 1972 - 1976.

(b) Data not collected for this period.

EXHIBIT B

PROBLEM BANK CATEGORIES AND CHARACTERISTICS

The FDIC, through its Division of Bank Supervision, presently uses the same categories and criteria furnished in our response to you of February 8, 1977. These categories are:

SERIOUS PROBLEM--POTENTIAL PAYOFF: An advanced Serious Problem situation which presents an estimated 50 percent chance of requiring FDIC financial assistance in the near future.

SERIOUS PROBLEM: A situation that threatens ultimately to involve the FDIC in a financial outlay unless drastic changes occur.

OTHER PROBLEM: A situation that contains significant weakness but a lesser degree of vulnerability. Such banks require more than ordinary concern and aggressive supervision.

The following general guidelines are used to measure Serious Problem and Other Problem banks (the Division has no specific guidelines for Serious Problem--Potential Payoff banks since that designation is reserved for Serious Problem banks whose condition in the judgment of the Division indicates an advanced state of deterioration which could result in failure within the near future):

SERIOUS PROBLEM: This category usually includes banks in which the nature and volume of weaknesses and the trends are such that correction is urgently needed. The net capital and reserves position of such banks (i.e., their book capital and reserves less supervisory adjustments for all adverse asset classifications, nonbook liabilities and shortages) is likely to be substantially negative. In addition, management is usually rated Unsatisfactory or Poor. Representing the greatest area of financial exposure to the Corporation, "Serious Problem" non-member banks necessarily receive the most concentrated FDIC attention and supervision.

OTHER PROBLEM: Generally, a bank may be designated an "Other Problem" bank if net capital and reserves are nominal or a negative figure. However, the adequacy of net capital is not the only criterion for the Other Problem designation. There will be some banks whose net capital and reserves are positive figures but which, nevertheless, belong in this problem bank category because of excessive loan delinquencies, a rapid rate of asset deterioration, significant violations of law or regulations, an unusually low "adjusted" capital position (i.e., book capital and reserves less all assets classified Loss and 50 percent of all assets classified Doubtful), an undesirable liquidity posture, pronounced management deficiencies or other adverse factors. Generally speaking, management has been rated Unsatisfactory, with a rating of Fair or Satisfactory the exception.

General Memorandum No. 6 issued by the FDIC's Division of Bank Supervision in August 1975 is attached and contains the Division's instructions to our field examiners, Regional Directors and review examiners concerning the procedures to be followed in classifying "problem banks". The qualitative judgments which enter into such classifications, however, are summarized above.

EXHIBIT B

FEDERAL DEPOSIT INSURANCE CORPORATION

DIVISION OF BANK SUPERVISION

WASHINGTON

General Memorandum No. 6

August 1975

SUBJECT: PROBLEM BANKS

It is necessary that problem banks be identified and classified according to the severity of their problems in order that the Board of Directors can assess the degree and dollar volume of potential threat to the insurance fund and corrective efforts can be appropriately marshalled. Accordingly, the Division of Bank Supervision utilizes three categories of problem banks. In declining order of severity, these problem designations are:

SERIOUS PROBLEM - POTENTIAL PAYOFF: An advanced Serious Problem state presenting a 50% chance of requiring Corporation financial assistance in the near future.

SERIOUS PROBLEM: A bank that threatens to ultimately involve the Corporation in a financial outlay unless drastic changes occur.

OTHER PROBLEM: A situation that contains significant weakness but a lesser degree of vulnerability and requires more than ordinary concern and aggressive supervision.

When an examination of a state nonmember bank, either by the state authority or the Corporation, reveals problems which are deemed by the Regional Director to warrant assignment of a formal problem designation, the following procedures are to be employed within the Regional Office:

A memorandum to the files will be prepared utlizing FDIC form 6620/10 as the first page (a sample problem memorandum is attached). Data relative to the most recent examination will be displayed in the right column with data for the past two examinations in the columns to the left. If the examination is the bank's first, the far right column should be utilized. Senior capital (preferred stock, notes, or debentures) should be shown at the first line of the Miscellaneous Information Section above Common stock, and following the Estimated insured deposits/ percentage line, any significant statistical data which may depict adverse (or favorable) trends should be included. In summary, the completed first page of the memorandum to the files should give the reader a capsulized picture of what the bank's problems are as well as their magnitude and trends. The second (narrative) page of the memorandum should be divided into these three distinct sections:

IDENTIFICATION AND NATURE OF THE PROBLEM--The initial paragraph under this section should contain a concise description (one or two sentences) of the specific problems or difficulties causing the recommended designation of the bank as a problem as well as the names of those persons who are responsible for the difficulties. Next, discuss the events precipitating the problem and give an analysis of the current situation as it relates to the condition of the bank. If appropriate, be certain to include information with respect to self-serving or other unfavorable tendencies on the part of management. Do not repeat statistical data shown at page 1.

CORRECTIVE ACTION--Identify any corrective action being taken at the direction of the state authority or otherwise, and list specific improvements noted as a direct result of such corrective action. Include information regarding your plans for the next examination or for conferences with the management, and indicate in all cases whether action under Section 8 is desirable. However, if Section 8 action is recommended, do not include specific charges and desired corrective orders; these should be incorporated into a separate memorandum to the Director, Division of Bank Supervision.

GENERAL--Provide brief information about the years of organization and insurance, recent merger transactions, the location of the bank and economic characteristics of the trade area served, competition, number of branches operated, and whether trust powers are exercised. If not discussed under "Identification and Nature of the Problem," specific information on where stock control is vested, who makes management decisions, and an estimate of their capability is desired. The last sentence of this section should include the Regional Director's recommendation for a specific problem designation. If at all possible, the narrative comments should be confined to one typewritten page.

When the memorandum to the files containing the Regional Director's recommendation for a problem designation is received in the Washington Office, it will be reviewed within the Problem Bank Section. If the Review Examiner concurs with the Regional Director's recommended problem designation and the corrective measures which are to be employed, he will indicate agreement by placing his signature under the date of his review. The Review Section Chief, or his designee, will also sign the memorandum prior to its distribution, and all Serious Problem-Potential Pay-off and Serious Problem memoranda will also be reviewed by the Assistant Director, Supervision and Review. If there is a difference of opinion between the Regional Office and the Problem Bank Section regarding the recommended problem designation or the anticipated corrective measures, the Regional Office will be contacted by telephone in an effort to resolve the matter. If agreement still cannot be reached, and the situation is of such significance as to warrant, the matter will be brought to the attention of, in order and as required, the appropriate Assistant Director, the appropriate Deputy Director, or the Director for resolution. The ultimate decision regarding the assignment of problem designations and the initiation of Section 8 action rests at the Washington level of the Division; however, if the Washington Office concludes differently than the Regional Director, in all problem memoranda, the recommendation and viewpoint of the Regional Director should be clearly stated in an addendum and, if warranted, a letter over the Director's signature will be forwarded to the Regional Director outlining the reasons for the assigned designation and/or the expected corrective measures.

Whenever any Regional Director becomes aware of problems which may affect the solvency of any of the banks within his region, including preliminary reports from examinations in process, the Problem Bank Section should be telephonically advised of the facts as well as the Regional Director's recommended problem designation. If the situation warrants, the Problem Bank Section will then prepare a memorandum to the files, assigning the appropriate problem designation. FDIC form 6620/11, or plain typing paper, may be used for this purpose.

Recommendations by the Regional Directors for removal of a problem designation should be prepared on FDIC form 6620/11. The narrative comments should be very concise, citing the former problems, their cause, and the favorable developments which warrant restoring the bank to nonproblem status. Review of recommendations for removal of problem designations within the Washington Office will follow the procedures outlined earlier for recommended problem designations.

The Problem Bank Section will be responsible for the preparation of FDIC form 6620/8 to accompany each Serious Problem-PPO and Serious Problem memorandum. This form is intended for the use of the General Accounting Office, and the remarks should be very brief, describing the bank's problems and the corrective efforts being utilized and/or considered. No proper names or other comments which may identify the bank should be included in the data which will be furnished to the GAO (the bank's name and location will be blocked out on the copy provided to the GAO).

Examination reports and other relevant data regarding banks which the Comptroller of the Currency and the Federal Reserve consider to be problem banks will be reviewed in the Problem Bank Section and, where appropriate, a memorandum to the files assigning a problem designation will be prepared. However, as in the case of state nonmember banks, whenever the Regional Directors become aware of problems of significance involving national or member banks, the Problem Bank Section should be advised of the situation.

It will be the responsibility of the Problem Bank Section to distribute problem memoranda in accordance with instructions of the Director of the Division and to maintain records of problem banks which will be considered as confidential material. A list of all problem banks will be prepared periodically by the Problem Bank Section and distributed in accordance with the instructions of the Director.

An updated analysis of each Serious Problem-PPO and Serious Problem nonmember bank should be provided by the Regional Directors to the Director of the Division at the end of each calendar quarter, and a current analysis of each Other Problem nonmember bank should be provided semiannually (June 30 and December 31). FDIC form 7100/1 should be used for these purposes.

A response should be made to each item in the printed portion of the form. The "Remarks" should include a concise explanation of the problem, limited to a single page, and a list of the positive corrective actions being taken to effect improvement, with special emphasis devoted to those taken since the preceding Problem Bank Summary. In each instance, the need for action under Section 8 of our Act should be considered. Additionally, the date each analysis is prepared should be indicated at the conclusion of the "Remarks."

In summary, the Division's problem designations are based on the degree of financial risk posed to the insurance fund; while input from the Regional Offices is a basic factor, the final determination of problem designations rests at the Washington level of the Division where additional benefits may accrue from a detached viewpoint and standardized criteria. The problem bank lists, memoranda, and related data are solely internal working documents and are to receive confidential treatment. It is recognized that the Regional Directors may be presented with supervisory problems by banks which may not pose sufficient financial risk to warrant one of the formal problem designations. The Regional Directors may, if they wish, maintain for their use an internal list of supervisory problems in order to more effectively allocate supervisory efforts; however, to eliminate confusion, any such Regional supervisory problem designations should not be used in inter-office correspondence.

In all correspondence relating to problem banks, the assigned problem designation should be included at the subject line. If the Regional Director has recommended a problem designation but it has not yet been formally assigned by the Division, the subject line should include the word "Recommended" preceding the suggested designation.

John J. McCarthy
Deputy Director

Attachments

EXHIBIT B

Date

MEMORANDUM TO THE FILES:

ANYCITY STATE BANK
ANYCITY, ANYSTATE
Serious Problem
(Formerly Other Problem)

Examined	12-2-73	9-22-74	3-29-75
Examiner-in-charge	Corso	Becker	Gates
Ratings	7-3-1.7-F	5-1R-0.8-U	3-4R-0.0R-U
Adjusted gross assets	7,945	9,885	11,870
BALANCE SHEET-ANALYSIS OF CAPITAL			
Cash and due from banks	1,000	800	950
U.S. Treasury and U.S. Government Agency and Corporation securities	600	450	300
Other securities	680	920	1,000
Loans	5,600	7,700	9,600
Other assets	120	130	150
Total assets	8,000	10,000	12,000
Total deposits	7,295	9,025	10,790
Other liabilities	30	250	600
Total capital	600	650	610
Add: Reserves	75	75	0
Nonbook sound banking values	0	0	0
Less: Loss	40	90	100
50% of Doubtful	15	25	30
Nonbook liabilities and differences	0	55	75
Adjusted capital and reserves	620	555	405
Percent of adjusted gross assets	7.8%	5.6%	3.4%
Less: 50% of Doubtful	15	25	30
Substandard: Securities	0	30	50
Loans	300	650	850
Other real estate	0	0	0
Other assets	0	0	20
Net capital and reserves	305	150R	545R
Percent of adjusted gross assets	3.8%	1.5%R	4.5%R
Bank premises and equipment-not adversely classified	85	90	100
Residual capital and reserves	220	240R	645R
INCOME AND CHANGES IN CAPITAL ACCOUNTS	1972	1973	1974
Total operating income	480	570	775
Net operating income after taxes	125	66	10R
Cash dividends declared	10	30	40
Net change in capital accounts for period	75	36	50R
Percent of total operating income to average gross assets	6.86%	7.13%	7.75%
Percent of net operating income after taxes to average gross assets	1.79%	0.83%	0.09%R
Net loans charged-off (recovered)	15	55	160
MISCELLANEOUS INFORMATION (Date of examination)			
	50	50	50
Common stock	200	200	200
Surplus	125	250	250
Estimated insured deposits/percentage	6,600/90%	8,400/91%	9,900/89%
Total overdue loans to gross loans	3.0%	6.0%	8.5%
Total loans to gross assets	70%	77%	80%
Classified assets to capital & reserves	55%	113%	177%
Concentrations of credit/number	0/0	800/1	1,000/1
Violations of law and regulation/number	0/4	100/3	600/10
Securities appreciation/depreciation	75R	206R	150R
Borrowings	0	200	500

R - Indicates deficit figure
(000 omitted in dollar amounts)

PPO - Indicates Potential Pay-Off
** - Indicates State Federal Reserve Member Bank

FDIC 6620/10 (1-70)(Formerly FORM DE-29)

Identification and Nature of Problem

The unrealistic policies of a self-serving ownership/management have resulted in an excessive volume of classified assets, heavy loan charge-offs, inadequate capital, and the lack of adequate provisions for liquidity.

Subject became a matter of supervisory concern following the purchase of 51% of outstanding stock by Chairman John L. Smith and President Henry J. Jones in October 1973. Due to their liberal lending and lax collection policies, classified loans increased to the point where Other Problem status was applied following the September 1974 examination. Since then, the trend of deterioration has continued and loan losses of significant proportions have resulted. Loans have been granted without regard for the creditworthiness of borrowers or adequate security and without repayment programs. Documentation is wholly inadequate and violations of law are a continuing criticism. Loans to control owners, their interests and associates, a portion of which is held in violation of statutes and represents 50% of total classifications, are scheduled as a concentration of credit. Book capital now includes a substantial volume of unearned income ($55,000 and $75,000 at the last two examinations), an accounting inaccuracy attributed to present ownership. Reasonably acceptable gross earnings have been dissipated through loan losses, payment of excessive salary, bonus, and expense allowances to Messrs. Smith and Jones, and unwarranted, unearned cash dividends. In connection with the excessive remuneration to control owners, the examiner pointed out the possibility of disallowance by the Internal Revenue Service and/or a suit by minority stockholders.

Liquidity presents a potentially serious problem. Frequent use of borrowed funds has been necessary to support the unusually high loan volume. In addition, the effectiveness of the securities portfolio as a secondary reserve has been negated by investment in a large volume of long-term municipal issues, most of which are fourth-rated and nonrated, with a relatively large estimated market depreciation.

Chairman Smith (46) and President Jones (40) completely dominate policy formulation in their role as part-time officers and are applying the speculative methods here that have proven rather successful in their livestock and real estate ventures. Executive Vice President James R. Gray (55), managing officer in name only, possesses limited ability and is completely subservient to the wishes of ownership. Junior officers are no better than mediocre. The other directors have been indifferent to the situation and are content to permit the chairman and president to operate the bank as they see fit.

Corrective Action

The examiners met with the directors at the close of the last two examinations but were unable to obtain promises for correction, and periodic examiner visitations and required progress reports from the bank have not brought the desired results. The undersigned and State Superintendent of Banking Billingsley recently met with the directors, but due to the dominance and cavalier attitude of Smith and Jones, little was accomplished. Accordingly, a recommendation for Section 8(b) action is being forwarded this date to the Director.

General

Subject opened as an insured bank in 1951, has not been involved in any merger-type transactions, is not empowered to act in any fiduciary capacity, and has no branches. Competition is provided by a local bank of similar size and there are four other banks within a 10-mile radius. The economy of the trade area of some 10,000 persons depends largely upon livestock production, but resort activity in the area is becoming more important.

The continued deterioration in the bank's condition as well as the unwillingness and inability of management to effect improvements justify assignment of the Serious Problem designation.

John J. Doe
Regional Director

WASHINGTON OFFICE ADDENDUM:

Regional Director Doe's recommendation for Cease and Desist action is being reviewed and processed.

John K. Strongheart
Review Examiner

Concur:

Albert E. Blaisdell
Review Section Chief

EXHIBIT B

FDIC 6620/8 (11-1-69) (Formerly FORM 107)

Anywhere Region

SERIOUS PROBLEM BANK

Name and Location of Bank	Total Deposits	Total Capital and Reserves	Adjusted Capital and Reserves	%	C: Basic Capital or D: Deposit Impairment
Anycity State Bank Anycity, Anystate	10,790	610	405	3.4%	None
	Examined	**Examiner-in-Charge**	**Ratings**		**Risk Assets Less Total Capital and Reserves**
	3-29-75	Gates	3-4R-0.0R-U		10,140

R - Indicates deficit figure
(000 omitted in dollar amounts)

PPO - Indicates Potential Pay-Off
** - Indicates State Federal Reserve Member Bank

COMMENTS

Dominance, laxness in lending and collecting, and self-serving on the part of two directors who acquired control in late 1973 brought an excessive volume of adversely classified assets, significant loan losses, inadequate capital, a concentration of low-quality insider loans, and lack of adequate liquidity in the asset structure.

Informal supervisory methods--examiner visitations, required periodic progress reports from the bank, and meetings with the directors--have not been effective, and action under Section 8(b) of the FDI Act is anticipated.

EXHIBIT B

MEMORANDUM FOR THE FILES:

First State Bank of Anycity
Anycity, Anystate
Nonproblem
(Formerly Other Problem)

Examined	12-13-73	10-15-74	3-19-75
Examiner-in-charge	Duggan	Feltz	Cosmo
Ratings	4-3R-0.6R-U	5-0R-0.4-U	7-3-1.3-F
Total deposits (000 omitted)	8,325	9,565	10,938

R - Indicates deficit figure

**- Indicates State Federal Reserve Member Bank

Dominance and self-serving on the part of former directors and control owners John L. Money and Henry J. Longterm brought a burdensome volume of adversely classified assets, substantial charge-offs, inadequate capital, and a tenuous liquidity posture, requiring the issuance of a Cease and Desist Order in early 1974. Subsequently, Money and Longterm sold controlling interest to a group of local individuals, who brought in a competent executive officer, injected capital, and cleaned up the bank's asset condition.

Subject has been returned to a reasonably acceptable condition; it is recommended that the Other Problem designation be removed.

John J. Doe
Regional Director

REVIEWED 5-14-75:

John K. Strongheart
Review Examiner

CONCUR:

Albert E. Blaisdell
Review Section Chief

FDIC 6620/11 (11-73)

EXHIBIT B

NONMEMBER PROBLEM BANK SUMMARY

<table>
<tr><td>Name and location</td><td colspan="2">Moretown State Bank
Moretown, Anystate</td><td>Region</td><td>Anywhere</td><td>Date 12-31-74</td></tr>
<tr><td></td><td colspan="2"></td><td>Problem status</td><td colspan="2">☐ OP ☒ SP ☐ SP-PPO</td></tr>
<tr><td>Exams</td><td>Last FDIC</td><td>May 13, 1974</td><td>Point rating</td><td colspan="2">7-1-1.0-P</td></tr>
<tr><td></td><td>Last State</td><td>May 13, 1974</td><td>Section 8 action?</td><td colspan="2">None</td></tr>
<tr><td></td><td>Tentative FDIC</td><td>First Quarter 1975</td><td rowspan="2">FDIC conferences with management</td><td>Last</td><td>August 15, 1974</td></tr>
<tr><td></td><td>Tentative State</td><td>First Quarter 1975</td><td>Tentative</td><td>None scheduled.</td></tr>
</table>

REMARKS

The bank was designated "Other Problem" following the May 13, 1974 examination and was subsequently designated "Serious Problem - PPO" on August 16, 1974 following disclosure of the fact that the president had engaged the bank in a speculative purchase of securities futures which threatened the solvency of the bank. Subsequently, the directors were able to resolve the futures liability with minimal loss and the "PPO" designation was removed August 19, 1974. In October 1974 the president sold control and severed all connection with the bank. The new executive officer is Bruce S. Reliable, a former state examiner. Associated with Reliable in the acquisition of control is John B. Acceptable of the First State Bank, Anothercity, Anystate (8-7-1.2-S/ 10-6-74).

We regard the new management arrangement as satisfactory and feel that remaining problems will be resolved as quickly as possible. An early examination will be conducted; Section 8 action is not necessary.

Prepared 1-14-75

FDIC 7100/1 (3-71)

EXHIBIT C

FDIC PROBLEM BANK SUMMARY
December 31, 1975

Deposits	State Nonmember #	State Nonmember Assets	State Nonmember Deposits	National #	National Assets	National Deposits	State Member #	State Member Assets	State Member Deposits	Total #	Total Assets	Total Deposits
0 - 100 Million												
Serious Problem--PPO	23*	588,346	492,102	5	75,849	67,961	0	0	0	28	664,195	560,063
Serious Problem	70	1,431,214	1,218,521	5	169,028	153,452	3	57,093	45,028	78	1,657,335	1,417,001
Other Problem	174	3,372,310	2,857,263	29	1,133,198	977,951	11	408,584	357,177	214	4,914,092	4,192,391
Subtotal	267	5,391,870	4,567,886	39	1,378,075	1,199,364	14	465,677	402,205	320	7,235,622	6,169,455
100 Million - 1 Billion												
Serious Problem--PPO	0	0	0	0	0	0	0	0	0	0	0	0
Serious Problem	4	1,270,074	1,085,888	6	2,791,147	2,245,192	0	0	0	10	4,061,221	3,331,080
Other Problem	9	2,004,184	1,735,189	7**	4,272,761	2,994,120	3**	7,429,784	6,212,681	19	13,706,729	10,941,990
Subtotal	13	3,274,258	2,821,077	13	7,063,908	5,239,312	3	7,429,784	6,212,681	29	17,767,950	14,273,070
Over 1 Billion												
Serious Problem--PPO	0	0	0	0	0	0	0	0	0	0	0	0
Serious Problem	0	0	0	0	0	0	0	0	0	0	0	0
Other Problem	0	0	0	0	0	0	0	0	0	0	0	0
Subtotal	0	0	0	0	0	0	0	0	0	0	0	0
Recap												
Serious Problem--PPO	23	588,346	492,102	5	75,849	67,961	0	0	0	28	664,195	560,063
Serious Problem	74	2,701,288	2,304,409	11	2,960,175	2,398,644	3	57,093	45,028	88	5,718,556	4,748,081
Other Problem	183	5,376,494	4,592,452	36	5,405,959	3,972,071	14	7,838,368	6,569,858	233	18,620,821	15,134,381
Total	280	8,666,128	7,388,963	52	8,441,983	6,438,676	17	7,895,461	6,614,886	349	25,003,572	20,442,525

* Includes one bank with deposits of $100 million to $1 billion.
** Includes one bank exceeding $1 billion.

EXHIBIT C

FDIC PROBLEM BANK SUMMARY
June 30, 1976

Deposits	State Nonmember #	State Nonmember Assets	State Nonmember Deposits	National #	National Assets	National Deposits	State Member #	State Member Assets	State Member Deposits	Total #	Total Assets	Total Deposits
0 - 100 Million												
Serious Problem--PPO	22	344,321	310,533	0	0	0	0	0	0	22	344,321	310,533
Serious Problem	76	1,840,438	1,613,439	6+	199,122	179,117	5*	323,941	266,886	87	2,363,501	2,059,442
Other Problem	178	3,617,818	3,129,532	32	1,229,970	1,062,904	12	388,060	339,719	222	5,235,848	4,532,155
Subtotal	276	5,802,577	5,053,504	38	1,429,092	1,242,021	17	712,001	606,605	331	7,943,670	6,902,130
100 Million - 1 Billion												
Serious Problem--PPO	0	0	0	0	0	0	0	0	0	0	0	0
Serious Problem	8**	3,070,220	2,656,839	5	2,113,627	1,706,927	0	0	0	13	5,183,847	4,363,766
Other Problem	10	2,205,943	2,002,579	6	2,393,552	1,970,102	2	1,114,936	963,170	18	5,714,431	4,935,851
Subtotal	18	5,276,163	4,659,418	11	4,507,179	3,677,029	2	1,114,936	963,170	31	10,898,278	9,299,617
Over 1 Billion												
Serious Problem--PPO	0	0	0	0	0	0	0	0	0	0	0	0
Serious Problem	0	0	0	0	0	0	0	0	0	0	0	0
Other Problem	0	0	0	3	20,017,908	15,732,293	2	24,645,737	19,223,551	5	44,663,645	34,955,844
Subtotal	0	0	0	3	20,017,908	15,732,293	2	24,645,737	19,223,551	5	44,663,645	34,955,844
Recap												
Serious Problem--PPO	22	344,321	310,533	0	0	0	0	0	0	22	344,321	310,533
Serious Problem	84	4,910,658	4,270,278	11	2,312,749	1,886,044	5	323,941	266,886	100	7,547,348	6,423,208
Other Problem	188	5,823,761	5,132,111	41	23,641,430	18,765,299	16	26,148,733	20,526,440	245	55,613,924	44,423,850
Total	294	11,078,740	9,712,922	52	25,954,179	20,651,343	21	26,472,674	20,793,326	367	63,505,593	51,157,591

* Includes one bank with deposits of $100 million to $1 billion.

** Includes one bank with deposits exceeding $1 billion.

\+ Includes one Serious Problem--Potential Payoff bank with deposits under $100 million.

EXHIBIT C

FDIC PROBLEM BANK SUMMARY
December 31, 1976

Deposits	State Nonmember #	State Nonmember Assets	State Nonmember Deposits	National #	National Assets	National Deposits	State Member #	State Member Assets	State Member Deposits	Total #	Total Assets	Total Deposits
0 - 100 Million												
Serious Problem--PPO	19*	519,980	454,680	4	67,328	59,337	0	0	0	23	587,308	514,017
Serious Problem	64	1,370,490	1,216,669	11	528,271	471,282	4+	90,494	78,428	79	1,989,255	1,766,379
Other Problem	193	3,844,913	3,442,527	30	958,935	847,037	10	406,630	357,342	233	5,210,478	4,646,906
Subtotal	276	5,735,383	5,113,876	45	1,554,534	1,377,656	14	497,124	435,770	335	7,787,041	6,927,302
100 Million - 1 Billion												
Serious Problem--PPO	0	0	0	0	0	0	0	0	0	0	0	0
Serious Problem	8**	3,508,102	3,172,690	5	2,035,218	1,677,393	0	0	0	13	5,543,320	4,850,083
Other Problem	17**	5,342,625	4,905,459	5	1,697,856	1,454,583	3	2,383,538	1,867,360	25	9,424,019	8,227,402
Subtotal	25	8,850,727	8,078,149	10	3,733,074	3,131,976	3	2,383,538	1,867,360	38	14,967,339	13,077,485
Over 1 Billion												
Serious Problem--PPO	0	0	0	0	0	0	0	0	0	0	0	0
Serious Problem	0	0	0	0	0	0	0	0	0	0	0	0
Other Problem	0	0	0	4	26,784,740	19,924,757	2	24,645,737	19,223,551	6	51,430,477	39,148,308
Subtotal	0	0	0	4	26,784,740	19,924,757	2	24,645,737	19,223,551	6	51,430,477	39,148,308
Recap												
Serious Problem--PPO	19	519,980	454,680	4	67,328	59,337	0	0	0	23	587,308	514,017
Serious Problem	72	4,878,592	4,389,359	16	2,563,489	2,148,675	4	90,494	78,428	92	7,532,575	6,616,462
Other Problem	210	9,187,538	8,347,986	39	29,441,531	22,226,377	15	27,435,905	21,448,253	264	66,064,974	52,022,616
Total	301	14,586,110	13,192,025	59	32,072,348	24,434,389	19	27,526,399	21,526,681	379	74,184,857	59,153,095

* Includes one bank with deposits of $100 million to $1 billion.
** Includes one bank with deposits exceeding $1 billion.
+ Includes one Serious Problem--Potential Payoff bank with deposits of under $100 million.

EXHIBIT C

FDIC PROBLEM BANK SUMMARY
June 30, 1977

Deposits	State Nonmember #	State Nonmember Assets	State Nonmember Deposits	National #	National Assets	National Deposits	State Member #	State Member Assets	State Member Deposits	Total #	Total Assets	Total Deposits
0 - 100 Million												
Serious Problem--PPO	13*	409,239	357,487	3	59,838	52,254	0	0	0	16	469,077	409,741
Serious Problem	75	1,668,996	1,559,818	10	411,829	360,211	3*	184,358	151,971	88	2,265,183	2,072,000
Other Problem	178	3,684,298	3,240,766	34*	1,280,318	1,126,721	12	406,242	347,649	224	5,370,858	4,715,136
Subtotal	266	5,762,533	5,158,071	47	1,751,985	1,539,186	15	590,600	499,620	328	8,105,118	7,196,877
100 Million - 1 Billion												
Serious Problem--PPO	0	0	0	2	704,458	551,343	0	0	0	2	704,458	551,343
Serious Problem	8**	3,875,081	3,524,783	5	2,209,943	1,836,905	0	0	0	13	6,085,024	5,361,688
Other Problem	16**	5,739,474	5,289,069	0	0	0	3	2,628,683	2,083,868	19	8,368,157	7,372,937
Subtotal	24	9,614,555	8,813,852	7	2,914,401	2,388,248	3	2,628,683	2,083,868	34	15,157,639	13,285,968
Over 1 Billion												
Serious Problem--PPO	0	0	0	0	0	0	0	0	0	0	0	0
Serious Problem	0	0	0	0	0	0	0	0	0	0	0	0
Other Problem	0	0	0	4	27,808,564	19,784,405	2	29,759,103	23,406,757	6	57,567,667	43,191,162
Subtotal	0	0	0	4	27,808,564	19,784,405	2	29,759,103	23,406,757	6	57,567,667	43,191,162
Recap												
Serious Problem--PPO	13	409,239	357,487	5	764,296	603,597	0	0	0	18	1,173,535	961,084
Serious Problem	83	5,632,572	5,084,601	15	2,621,772	2,197,116	3	184,358	151,971	101	8,438,702	7,433,688
Other Problem	194	9,335,277	8,529,835	38	29,088,882	20,911,126	17	32,794,028	25,838,274	249	71,218,187	55,279,235
Total	290	15,377,088	13,971,923	58	32,474,950	23,711,839	20	32,978,386	25,990,245	368	80,830,424	63,674,007

*Includes one bank with deposits of $100 million to $1 billion.
**Includes one bank with deposits exceeding $1 billion.

EXHIBIT C

FDIC PROBLEM BANK SUMMARY
December 31, 1977

Deposits	State Nonmember #	State Nonmember Assets	State Nonmember Deposits	National #	National Assets	National Deposits	State Member #	State Member Assets	State Member Deposits	Total #	Total Assets	Total Deposits
0 - 100 Million												
Serious Problem--PPO	10*	892,577	805,959	0	0	0	1	6,911	6,396	11	899,488	812,355
Serious Problem	72	1,480,920	1,314,465	10	244,919	204,373	3*	179,893	159,042	85	1,905,732	1,677,880
Other Problem	180	3,283,458	2,970,493	37	1,357,637	1,209,466	12	295,752	246,190	229	4,936,847	4,426,149
Subtotal	262	5,656,955	5,090,917	47	1,602,556	1,413,839	16	482,556	411,628	325	7,742,067	6,916,384
100 Million - 1 Billion												
Serious Problem--PPO	0	0	0	1	263,638	222,601	0	0	0	1	263,638	222,601
Serious Problem	10**	4,191,561	3,833,845	5	2,277,581	1,802,261	0	0	0	15	6,469,142	5,636,106
Other Problem	14	3,329,303	3,045,755	3	730,699	624,807	4	2,760,166	2,206,941	21	6,820,168	5,877,503
Subtotal	24	7,520,864	6,879,600	9	3,271,918	2,649,669	4	2,760,166	2,206,941	37	13,552,948	11,736,210
Over 1 Billion												
Serious Problem--PPO	0	0	0	0	0	0	0	0	0	0	0	0
Serious Problem	0	0	0	0	0	0	0	0	0	0	0	0
Other Problem	0	0	0	4	27,863,923	19,844,323	2	29,759,103	23,406,757	6	57,623,026	43,251,080
Subtotal	0	0	0	4	27,863,923	19,844,323	2	29,759,103	23,406,757	6	57,623,026	43,251,080
Recap												
Serious Problem--PPO	10	892,577	805,959	1	263,638	222,601	1	6,911	6,396	12	1,163,126	1,034,956
Serious Problem	82	5,672,481	5,148,310	15	2,522,500	2,006,634	3	179,893	159,042	100	8,374,874	7,313,986
Other Problem	194	6,612,761	6,016,248	44	29,952,259	21,678,596	18	32,815,021	25,859,888	256	69,380,041	53,554,732
Total	286	13,177,819	11,970,517	60	32,738,397	23,907,831	22	33,001,825	26,025,326	368	78,918,041	61,903,674

* Includes one bank with deposits of $100 million to $1 billion.

** Includes one bank with deposits of over $1 billion.

EXHIBIT D

State Nonmember
BANKS MOVING IN AND OUT OF PROBLEM CATEGORIES BY SIZE
(In Thousands of Dollars)

Deposit Size		1973 No.	1973 Assets	1973 Deposits
Under $100 Million				
PPO:	In	6	82,408	69,158
	Out	4	49,445	41,106
SP:	In	19*	895,680	802,940
	Out	13	133,409	114,396
OP:	In	66	1,138,417	993,580
	Out	93	1,115,822	996,498
Subtotal	In	91	2,116,505	1,865,678
	Out	110	1,298,676	1,152,000
$100 Million to $1 Billion				
PPO:	In	0	0	0
	Out	0	0	0
SP:	In	0	0	0
	Out	0	0	0
OP:	In	0	0	0
	Out	3	994,435	904,961
Subtotal	In	0	0	0
	Out	3	994,435	904,961
RECAP				
PPO:	In	6	82,408	69,158
	Out	4	49,445	41,106
SP:	In	19	895,680	802,940
	Out	13	133,409	114,396
OP:	In	66	1,138,417	993,580
	Out	96	2,110,257	1,901,459
Total	In	91	2,116,505	1,865,678
	Out	113	2,293,111	2,056,961
Net Increase (Decrease)		(22)	(176,606)	(191,283)

* Includes one bank in $100 million to $1 billion.

EXHIBIT D

State Nonmember

BANKS MOVING IN AND OUT OF PROBLEM CATEGORIES BY SIZE
(In Thousands of Dollars)

Deposit Size		1974 No.	1974 Assets	1974 Deposits	1975 No.	1975 Assets	1975 Deposits
Under $100 Million							
PPO:	In	13	263,734	224,647	28	563,326	485,849
	Out	9	85,347	72,856	14	202,978	190,574
SP:	In	38	853,569	727,011	75	1,444,190	1,218,802
	Out	27	610,428	532,657	36	648,055	544,713
OP:	In	75	1,338,045	1,151,867	175	3,481,395	2,944,528
	Out	*74	1,324,812	1,147,904	101	1,820,334	1,573,953
Subtotal	In	126	2,455,348	2,103,525	278	5,488,911	4,649,179
	Out	110	2,020,587	1,753,417	151	2,671,367	2,309,240
$100 Million to $1 Billion							
PPO:	In	0	0	0	0	0	0
	Out	0	0	0	0	0	0
SP:	In	2	350,042	304,328	2	309,333	275,473
	Out	0	0	0	0	0	0
OP:	In	2	396,006	318,710	7	1,609,443	1,381,680
	Out	0	0	0	0	0	0
Subtotal	In	4	746,048	623,038	9	1,918,776	1,657,153
	Out	0	0	0	0	0	0
RECAP							
PPO:	In	13	263,734	224,647	28	563,326	485,849
	Out	9	85,347	72,856	14	202,978	190,574
SP:	In	40	1,203,611	1,031,339	77	1,753,523	1,494,275
	Out	27	610,428	532,657	36	648,055	544,713
OP:	In	77	1,734,051	1,470,577	182	5,090,838	4,326,208
	Out	74	1,324,812	1,147,904	101	1,820,334	1,573,953
Total:	In	130	3,201,396	2,726,563	287	7,407,687	6,306,332
	Out	110	2,020,587	1,753,417	151	2,671,367	2,309,240
Net Increase		20	1,180,809	973,146	136	4,736,320	3,997,092

*Includes one bank in $100 million to $1 billion.

EXHIBIT D

STATE NONMEMBER BANKS MOVING IN AND OUT OF PROBLEM CATEGORIES BY SIZE
(In Thousands of Dollars)

Deposit Size		1976 No.	1976 Assets	1976 Deposits	1977 No.	1977 Assets	1977 Deposits
Under $100 Million							
PPO:	In	28	428,638	379,553	12*	927,273	835,603
	Out	32	579,369	508,985	21*	538,230	474,094
SP:	In	64	1,135,641	1,003,539	55	1,003,195	890,652
	Out	70	1,209,549	1,040,945	46	738,521	670,125
OP:	In	142	2,841,297	2,515,848	123	1,781,389	1,605,295
	Out	121	2,221,076	1,863,342	136	2,385,075	2,143,153
Subtotal	In	234	4,405,576	3,898,940	190	3,711,857	3,331,550
	Out	223	4,009,994	3,413,272	203	3,661,826	3,287,372
$100 Million to $1 Billion							
PPO:	In	3	813,064	738,979	0	0	0
	Out	3	702,987	633,669	0	0	0
SP:	In	7#	3,195,163	2,832,643	5	1,513,616	1,364,183
	Out	3	939,650	808,307	4	1,215,156	1,086,445
OP:	In	10#	3,940,239	3,656,571	8	1,862,213	1,708,755
	Out	4	867,140	735,099	11#	4,013,265	3,499,404
Subtotal	In	20	7,948,466	7,228,193	13	3,375,829	3,072,938
	Out	10	2,509,777	2,177,075	15	5,228,421	4,585,849
RECAP							
PPO:	In	31	1,241,702	1,118,532	12	927,273	835,603
	Out	35	1,282,356	1,142,654	21	538,230	474,094
SP:	In	71	4,330,804	3,836,182	60	2,516,811	2,254,835
	Out	73	2,149,199	1,849,252	50	1,953,677	1,756,570
OP:	In	152	6,781,536	6,172,419	131	3,643,602	3,314,050
	Out	125	3,088,216	2,598,441	147	6,398,340	5,642,557
Total:	In	254	12,354,042	11,127,133	203	7,087,686	6,404,488
	Out	233	6,519,771	5,590,347	218	8,890,247	7,873,221
Net Increase (Decrease)		21	5,834,271	5,536,786	(15)	(1,802,561)	(1,468,733)

* Includes one bank in $100 million to $1 billion.
\# Includes one bank over $1 billion.

EXHIBIT E-1

ALL STATE NONMEMBER COMMERCIAL BANKS
Examined In 1972 - 1977

Question 7 & 8	Year	Total	Total Deposits in Domestic Offices				
			0-100 Million	100-500 Million	500 Million-1 Billion	1-5 Billion	Over 5 Billion
Number of Banks Examined	1972	7,660	7,551	94	14	1	0
	1973	7,543	7,402	125	16	0	0
	1974	7,474	7,323	133	16	2	0
	1975	7,522	7,332	173	15	2	0
	1976	7,839	7,619	199	15	6	0
	1977*	4,506	4,373	121	9	3	0
Total Substandard Assets (in millions)	1972	1,802	1,360	235	193	14	0
	1973	1,925	1,378	329	218	0	0
	1974	2,647	1,788	524	313	22	0
	1975	4,202	2,535	1,069	570	28	0
	1976	4,997	3,002	1,228	535	232	0
	1977*	2,894	1,764	693	317	120	0
Total Doubtful Assets (in millions)	1972	162	104	23	35	0	0
	1973	170	103	30	37	0	0
	1974	246	150	49	47	0	0
	1975	422	262	105	52	3	0
	1976	457	262	108	62	25	0
	1977*	267	152	64	45	6	0
Total Loss Assets (in millions)	1972	166	119	25	21	1	0
	1973	190	122	40	28	0	0
	1974	319	178	65	75	1	0
	1975	459	252	132	74	1	0
	1976	479	269	125	65	20	0
	1977*	289	161	61	62	5	0
Total Classified Assets (in millions)	1972	2,130	1,583	283	249	15	0
	1973	2,285	1,603	399	283	0	0
	1974	3,212	2,116	638	435	23	0
	1975	5,083	3,049	1,306	696	32	0
	1976	5,933	3,533	1,461	662	277	0
	1977*	3,450	2,077	818	424	131	0

* Data reflects 1977 examination reports processed to date.

EXHIBIT E-1

Question 7 & 8	Year	Total	0-100 Million	100-500 Million	500 Million -1 Billion	1-5 Billion	Over 5 Billion
Total Special Mention Assets (in millions)	1972	505	272	189	38	6	0
	1973	475	283	127	65	0	0
	1974	568	319	76	150	23	0
	1975	953	539	289	102	23	0
	1976	778	415	134	47	182	0
	1977*	926	397	82	54	393	0
Total Classified and Special Mention Assets (in millions)	1972	2,635	1,855	472	287	21	0
	1973	2,760	1,886	526	348	0	0
	1974	3,780	2,434	714	586	46	0
	1975	6,036	3,588	1,595	798	55	0
	1976	6,711	3,948	1,595	709	459	0
	1977*	4,376	2,474	900	478	524	0
Percentage of Classified Assets to Total Assets	1972	1.6%	1.6%	1.5%	2.3%	1.1%	0
	1973	1.6%	1.5%	1.6%	2.0%	0	0
	1974	2.0%	1.8%	2.2%	3.0%	.8%	0
	1975	2.9%	2.5%	3.4%	5.0%	1.1%	0
	1976	3.0%	2.6%	3.5%	4.8%	3.1%	0
	1977*	2.8%	2.5%	3.1%	5.4%	2.8%	0
Percentage of Classified and Special Mention Assets to Total Assets	1972	2.0%	1.9%	2.5%	2.7%	1.6%	0
	1973	1.9%	1.8%	2.1%	2.4%	0	0
	1974	2.3%	2.1%	2.4%	4.0%	1.6%	0
	1975	3.4%	2.9%	4.2%	5.7%	1.9%	0
	1976	3.4%	2.9%	3.9%	5.1%	5.2%	0
	1977*	3.6%	3.0%	3.4%	6.1%	11.2%	0
Percentage of Classified Assets to Total Capital	1972	19.6%	18.8%	18.7%	29.2%	17.4%	0
	1973	18.8%	17.8%	19.7%	25.6%	0	0
	1974	23.6%	21.4%	27.2%	37.9%	10.7%	0
	1975	33.0%	27.9%	42.2%	60.3%	13.9%	0
	1976	34.5%	29.4%	42.8%	62.0%	39.1%	0
	1977*	33.3%	28.9%	37.9%	67.3%	33.5%	0
Percentage of Classified Assets and Special Mention Assets to Total Capital	1972	24.2%	22.0%	31.3%	33.6%	25.1%	0
	1973	22.8%	20.9%	26.1%	31.4%	0	0
	1974	27.8%	24.6%	30.5%	50.9%	21.2%	0
	1975	39.2%	32.9%	51.5%	69.2%	23.9%	0
	1976	39.0%	32.9%	46.8%	66.4%	64.8%	0
	1977*	42.2%	34.4%	41.7%	75.9%	134.3%	0

* Data reflects 1977 examination reports processed to date.

EXHIBIT E-1

Question 7 & 8	Year	Total	0-100 Million	100-500 Million	500 Million-1 Billion	1-5 Billion	Over 5 Billion
Average Classified Assets Per Bank (in thousands)	1972	278	210	3,011	17,797	14,643	0
	1973	303	217	3,188	17,695	0	0
	1974	430	289	4,802	27,215	11,472	0
	1975	676	416	7,546	46,375	15,957	0
	1976	757	464	7,341	44,090	46,136	0
	1977*	766	475	6,756	47,139	43,627	0
Average Special Mention Assets Per Bank (in thousands)	1972	66	36	2,007	2,713	6,474	0
	1973	63	38	1,020	4,039	0	0
	1974	76	44	574	9,386	11,233	0
	1975	127	73	1,670	6,793	11,526	0
	1976	99	54	675	3,118	30,276	0
	1977*	206	91	681	5,975	130,948	0
Total Average Classified and Special Mention Assets (in thousands)	1972	344	246	5,018	20,510	21,108	0
	1973	366	255	4,207	21,734	0	0
	1974	506	332	5,376	36,601	22,705	0
	1975	802	489	9,216	53,167	27,482	0
	1976	856	518	8,016	47,208	76,412	0
	1977*	971	566	7,437	53,114	174,575	0

* Data reflects 1977 examination reports processed to date.

EXHIBIT E-2

ALL INSURED NONMEMBER PROBLEM BANKS, 1973-1977

Question 7&8	Year	Total	Total Deposits in Domestic Offices: 0-100 Million	Total Deposits in Domestic Offices: 100 Million - 1 Billion
Number of Banks	1973	124	124(a)	0
	1974	144	140	4
	1975	280	266	14
	1976	301	276	25(b)
	1977	286	262	24(c)
Total Substandard Assets (in millions)	1973	208	208	0
	1974	328	228	100
	1975	870	526	344
	1976	1,366	616	750
	1977	1,205	472	733
Total Doubtful Assets (in millions)	1973	29	29	0
	1974	56	30	26
	1975	121	79	42
	1976	234	91	143
	1977	152	63	89
Total Loss Assets (in millions)	1973	29	29	0
	1974	55	36	19
	1975	126	87	39
	1976	227	88	139
	1977	207	74	133
Total Classified Assets (in millions)	1973	266	266	0
	1974	439	294	145
	1975	1,117	692	425
	1976	1,827	795	1,032
	1977	1,564	609	955

(a) Includes one bank between $100 milion and $1 billion.
(b) Includes two banks with deposits over $1 billion.
(c) Includes one bank with deposits over $1 billion.

EXHIBIT E-2

ALL INSURED NONMEMBER PROBLEM BANKS, 1973-1977 (Continued)

	Year	Total	0-100 Million	100 Million - 1 Billion
Total Special Mention Assets (in millions)	1973	28	28	0
	1974	56	33	23
	1975	95	69	26
	1976	210	52	158
	1977	153	37	116
Total Classified and Special Mention Assets (in millions)	1973	294	294	0
	1974	495	327	168
	1975	1,212	761	451
	1976	2,037	848	1,189
	1977	1,717	646	1,071
Percentage of Classified Assets to Total Assets	1973	9.4%	9.4%	0
	1974	11.2%	11.3%	11.1%
	1975	12.6%	12.9%	12.3%
	1976	12.5%	13.8%	11.6%
	1977	12.1%	12.6%	11.8%
Percentage of Classified and Special Mention Assets to Total Assets	1973	10.4%	10.4%	0
	1974	12.6%	12.5%	12.9%
	1975	13.7%	14.2%	13.0%
	1976	13.9%	14.7%	13.4%
	1977	13.3%	13.4%	13.2%
Percentage of Classified Assets to Total Capital	1973	123.6%	123.6%	0
	1974	133.4%	135.9%	128.3%
	1975	154.7%	153.9%	156.3%
	1976	167.2%	166.6%	167.7%
	1977	162.2%	152.2%	169.3%
Percentage of Classified Assets and Special Mention Assets to Total Capital	1973	136.5%	136.5%	0
	1974	150.5%	151.0%	148.7%
	1975	167.9%	169.1%	165.8%
	1976	186.4%	177.6%	193.4%
	1977	178.1%	161.3%	189.9%

ALL INSURED NONMEMBER PROBLEM BANKS, 1973-1977 (Continued)

	Year	Total	0-100 Million	100 Million - 1 Billion
Average Classified Assets Per Bank (in thousands)	1973	2,143	2,143	0
	1974	3,054	2,102	36,366
	1975	3,991	2,606	30,298
	1976	6,070	2,882	41,261
	1977	5,489	2,333	39,807
Average Special Mention Assets Per Bank (in thousands)	1973	223	223	0
	1974	391	234	5,860
	1975	338	258	1,863
	1976	697	188	6,311
	1977	537	140	4,854
Total Average Classified and Special Mention Assets (in thousands)	1973	2,366	2,366	0
	1974	3,445	2,336	42,226
	1975	4,329	2,864	32,160
	1976	6,767	3,071	47,573
	1977	6,026	2,474	44,662

EXHIBIT E-2

Insured Nonmember Serious Problem - Potential Payoff Banks
Year End 1973 - 1977

Question 7 & 8	Year End	Total	Total Deposits in Domestic Offices: 0-100 Million	Total Deposits in Domestic Offices: 100 Million - 1 Billion
Number of Banks	1973	5	5	0
	1974	9	9	0
	1975	23	22	1
	1976	19	18	1
	1977	10	9	1
Total Substandard Assets (in millions)	1973	9		
	1974	14		
	1975	67		
	1976	66		
	1977	114		
Total Doubtful Assets (in millions)	1973	2		
	1974	4		
	1975	16		
	1976	10		
	1977	15		
Total Loss Assets (in millions)	1973	1		
	1974	8		
	1975	21		
	1976	13		
	1977	36		
Total Classified Assets (in millions)	1973	12		
	1974	26		
	1975	104		
	1976	89		
	1977	165		
Total Special Mention Assets (in millions)	1973	1		
	1974	1		
	1975	9		
	1976	5		
	1977	1		

EXHIBIT E-2

Insured Nonmember Serious Problem - Potential Payoff Banks
Year End 1973 - 1977
(Continued)

Question 7 & 8	Year End	Total
Total Classified and Special Mention Assets	1973	13
	1974	27
	1975	113
	1976	94
	1977	166
Percentage of Classified Assets to Total Assets	1973	22.7%
	1974	12.0%
	1975	17.7%
	1976	16.2%
	1977	18.4%
Percentage of Classified and Special Mention Assets to Total Assets	1973	24.2%
	1974	12.3%
	1975	19.3%
	1976	17.1%
	1977	18.5%
Percentage of Classified Assets to Total Capital	1973	260.9%
	1974	179.4%
	1975	248.6%
	1976	247.7%
	1977	240.0%
Percentage of Classified Assets and Special Mention Assets to Total Capital	1973	278.3%
	1974	183.5%
	1975	271.1%
	1976	261.3%
	1977	241.6%

EXHIBIT E-2

Insured Nonmember Serious Problem - Potential Payoff Banks
Year End 1973 - 1977
(Continued)

Question 7 & 8	Year End	Total
Average Classified Assets Per Bank (in millions)	1973	2,444
	1974	2,911
	1975	4,529
	1976	4,676
	1977	16,497
Average Special Mention Assets Per Bank (in thousands)	1973	163
	1974	65
	1975	409
	1976	257
	1977	106
Total Average Classified and Special Mention Assets (in thousands)	1973	2,607
	1974	2,976
	1975	4,938
	1976	4,933
	1977	16,603

EXHIBIT E-2

Insured Nonmember Serious Problem Banks
Year End 1973 - 1977

	Year End	Total	Total Deposits in Domestic Offices: 0-100 Million	Total Deposits in Domestic Offices: 100 Million - 1 Billion
Number of Banks	1973	20	20(a)	0
	1974	33	31	2
	1975	74	70	4
	1976	72	64	8(b)
	1977	82	73	9(b)
Total Substandard Assets (in millions)	1973	85	85	0
	1974	162	81	81
	1975	357	187	170
	1976	541	184	357
	1977	542	183	359
Total Doubtful Assets (in millions)	1973	15	15	0
	1974	31	11	20
	1975	50	22	28
	1976	119	38	81
	1977	81	32	49
Total Loss Assets (in millions)	1973	11	11	0
	1974	27	14	13
	1975	44	29	15
	1976	100	31	69
	1977	112	43	69
Total Classified Assets (in millions)	1973	111	111	0
	1974	220	106	114
	1975	451	238	213
	1976	760	252	508
	1977	735	258	477

(a) Includes one bank with deposits between $100 million and 1 billion.
(b) Includes one bank with deposits over $1 billion.

EXHIBIT E-2

Insured Nonmember Serious Problem Banks
Year End 1973 - 1977
(Continued)

	Year End	Total	Total Deposits in Domestic Offices: 0-100 Million	Total Deposits in Domestic Offices: 100 Million - 1 Billion
Total Special Mention Assets (in millions)	1973	10	10	0
	1974	33	10	23
	1975	27	15	12
	1976	126	12	114
	1977	90	14	76
Total Classified and Special Mention Assets (in millions)	1943	121	121	0
	1974	253	116	137
	1975	478	253	225
	1976	886	294	622
	1977	825	272	553
Percentage of Classified Assets to Total Assets	1973	10.6%	10.6%	0
	1974	14.0%	16.4%	12.4%
	1975	16.3%	16.1%	16.4%
	1976	15.6%	18.5%	14.4%
	1977	13.5%	17.4%	12.0%
Percentage of Classified and Special Mention Assets to Total Assets	1973	11.5%	11.5%	0
	1974	16.2%	18.1%	14.9%
	1975	17.2%	17.1%	17.4%
	1976	18.1%	19.4%	17.7%
	1977	15.1%	18.3%	13.9%
Percentage of Classified Assets to Total Capital	1973	144.8%	144.8%	0
	1974	159.5%	202.2%	131.1%
	1975	202.7%	200.3%	205.3%
	1976	205.7%	241.6%	191.6%
	1977	188.5%	206.4%	180.1%

EXHIBIT E-2

Insured Nonmember Serious Problem Banks
Year End 1973 - 1977
(Continued)

	Year End	Total	Total Deposits in Domestic Offices: 0-100 Million	100 Million - 1 Billion
Percentage of Classified Assets and Special Mention Assets to Total Capital	1973	158.0%	158.0%	0
	1974	184.2%	228.8%	158.1%
	1975	214.8%	212.8%	217.2%
	1976	239.7%	253.3%	234.3%
	1977	211.6%	217.5%	208.9%
Average Classified Assets Per Bank (in thousands)	1973	5,532	5,532	0
	1974	6,652	3,409	56,919
	1975	6,101	3,401	53,345
	1976	10,557	3,933	63,545
	1977	9,073	3,579	53,025
Average Special Mention Assets Per Bank (in thousands)	1973	504	504	0
	1974	1,027	337	11,720
	1975	366	211	3,070
	1976	1,746	191	14,182
	1977	1,111	191	8,464
Total Average Classified and Special Mention Assets (in thousands)	1973	6,036	6,036	0
	1974	7,679	3,746	68,639
	1975	6,467	3,612	56,414
	1976	12,302	4,124	77,728
	1977	10,183	3,770	61,488

EXHIBIT E-2

Insured Nonmember Other Problem Banks
Year End 1973 - 1977

	Year End	Total	Total Deposits in Domestic Offices: 0-100 Million	Total Deposits in Domestic Offices: 100 Million - 1 Billion
Number of Banks	1973	99	99	0
	1974	102	100	2
	1975	183	174	9
	1976	210	193	17(a)
	1977	194	180	14
Total Substandard Assets (in millions)	1973	114	114	0
	1974	153	134	19
	1975	446	283	163
	1976	760	367	393
	1977	550	279	271
Total Doubtful Assets (in millions)	1973	12	12	0
	1974	20	14	6
	1975	56	42	14
	1976	104	43	61
	1977	55	28	27
Total Loss Assets (in millions)	1973	17	17	0
	1974	21	14	7
	1975	60	38	22
	1976	114	45	69
	1977	59	28	31
Total Classified Assets (in millions)	1973	143	143	0
	1974	194	162	32
	1975	562	363	199
	1976	978	455	523
	1977	664	335	329

(a) Includes one bank with deposits over $1 billion.

EXHIBIT E-2

Insured Nonmember Other Problem Banks
Year End 1973 - 1977
(Continued)

			Total Deposits in Domestic Offices	
	Year End	Total	0-100 Million	100 Million - 1 Billion
Total Special Mention Assets (in millions)	1973	17	17	0
	1974	22	22	0
	1975	58	45	13
	1976	79	35	44
	1977	62	23	39
Total Classified and Special Mention Assets (in millions)	1973	160	160	0
	1974	216	184	32
	1975	620	408	212
	1976	1,057	490	567
	1977	726	358	368
Percentage of Classified Assets to Total Assets	1973	8.3%	8.3%	0
	1974	9.0%	9.3%	8.1%
	1975	10.2%	10.5%	9.8%
	1976	10.6%	11.8%	9.7%
	1977	10.1%	10.3%	9.8%
Percentage of Classified and Special Mention Assets to Total Assets	1973	9.3%	9.3%	0
	1974	10.1%	10.5%	8.1%
	1975	11.3%	11.8%	10.4%
	1976	11.4%	12.7%	10.5%
	1977	11.0%	11.0%	11.0%
Percentage of Classified Assets to Total Capital	1973	106.7%	106.7%	0
	1974	109.4%	107.4%	121.0%
	1975	122.8%	122.3%	123.7%
	1976	142.3%	134.8%	149.6%
	1977	131.3%	124.1%	139.6%

Insured Nonmember Other Problem Banks
Year End 1973 - 1977
(Continued)

			Total Deposits in Domestic Offices	
	Year End	Total	0-100 Million	100 Million - 1 Billion
Percentage of Classified Assets and Special Mention Assets to Total Capital	1973	119.3%	119.3%	119.3%
	1974	121.7%	121.8%	121.0%
	1975	135.5%	137.6%	131.8%
	1976	153.9%	145.2%	162.2%
	1977	143.6%	132.5%	156.3%
Average Classified Assets Per Bank (in thousands)	1973	1,443	1,443	0
	1974	1,902	1,624	15,813
	1975	3,070	2,085	22,123
	1976	4,658	2,357	30,776
	1977	3,425	1,864	23,503
Average Special Mention Assets Per Bank (in thousands)	1973	170	170	0
	1974	218	218	0
	1975	318	260	1,443
	1976	378	182	2,608
	1977	320	126	2,819
Total Average Classified and Special Mention Assets (in thousands)	1973	1,612	1,612	0
	1974	2,115	1,842	15,813
	1975	3,388	2,344	23,567
	1976	5,036	2,539	33,383
	1977	3,745	1,989	26,322

QUESTION 17 EXHIBIT F

VIOLATIONS OF LAW AND REGULATION

Insured state nonmember banks are subject to a plethora of statutes, rules and regulations, some of which do not involve safety and soundness, promulgated at both federal and state levels. There is no uniformity among the state laws, some of which are only technical in nature, but they generally restrict, in varying degrees, the framework in which banks can operate. Such laws usually impose limitations on the total credit that can be extended to borrowers, and may impose restrictions on loans to directors and officers and with respect to certain types of loans or collateral, securities suitable for investment, the amount that can be invested in fixed assets and real estate, other real estate owned, fiduciary activities, branch offices, required cash reserves, payment of interest, and consumer credit. Federal laws and regulations cover such areas as loans secured by stock, security devices and procedures, advertising, payment of interest, securities issued by banks, standby letters of credit, insider transactions, loans in flood hazard areas, registration of transfer agents, loans to affiliates, consumer credit and equal opportunity protection, and financial record-keeping and reporting. Due to the number and variance in the laws, rules and regulations, the foregoing are not intended to be inclusive but representative examples.

Counting the number of violations is a difficult, if not impossible, task. A faulty printed form or taped advertisement, for example, might be counted as one violation or it might be counted as a violation each time used.

During the course of examinations, bank examiners determine compliance with applicable statutes, rules and regulations, and set forth infractions in their report. If the apparent violation disclosed involves a criminal statute, a report is made to the appropriate United States Attorney instead of being shown in the examination report.

Many violations noted are inadvertent or technical in nature. Under present practices, examiners point out infractions and, in many instances, corrections are made at that time. In other cases, correction may take longer but is generally accomplished as soon as possible. In any event, when requesting correction of such items or determining the appropriate action needed, Regional Offices give consideration to whether each violation may be intentional or willful, the consequences flowing therefrom, the likelihood of continued violations, and the bank's history of compliance and attitude toward effecting corrections. Evaluation of these factors determines whether formal action under Section 8 of the FDI Act is pursued to obtain compliance.

EXHIBIT G

QUESTION 16

FORMAL ACTIONS

A listing and description of the three termination of insurance actions initiated under Section 8(a) of the FDI Act and the 44 cease and desist orders issued under Section 8(b) and eight under Section 8(c) of the Act during 1977 may be found in the following schedules. Actions taken in 1971 through 1976 are listed and described in the FDIC's 1976 Annual Report.

Removal proceedings, against an officer or director of an insured state nonmember bank who violates a law, rule, regulation, or final cease and desist order, or who engages in an unsafe and unsound practice that constitutes a breach of his fiduciary duty, may be initiated by the Corporation under Section 8(e) of the Federal Deposit Insurance Act. The Corporation is authorized to take such action if it determines that the conduct will cause substantial financial losses or other damages to the bank or will seriously prejudice the interests of the bank's depositors, and that the conduct involves personal dishonesty. No orders under Section 8(e) were issued by FDIC in 1977.

Section 8(g) of the FDI Act provides that when an officer, director, or other person who participates in the management of an insured nonmember bank is charged, in an information, indictment, or complaint authorized by a U. S. Attorney, with the commission of, or participation in, a felony involving dishonesty or a breach of trust, the Corporation may suspend or prohibit the person from participating in the affairs of the bank. In light of a court decision in which Section 8(g) was held to be unconstitutional, the Corporation in 1977 issued regulations to cover the deficiencies in the statute found by the court. In addition, legislation was proposed to Congress in 1977 to cure the constitutional defects found by the court. No orders under Section 8(g) were issued by FDIC in 1977.

FEDERAL DEPOSIT INSURANCE CORPORATION
Federal Deposit Insurance Act - Section 8(a)
(Action to Terminate Insured Status)
1977

EXHIBIT G

Bank No.	Summary	
28	Deposits - $12,586,000	Assets - $13,432,000

Notice of Intention to Terminated Insured Status issued 4-19-77. Bank was found to be in an unsafe and unsound condition and ordered to provide acceptable management, eliminate or reduce adversely classified assets, reduce overdue loans to a specific level, eliminate concentrations of credit, correct violations of laws and regulations, increase capital, provide a plan for controlling expenses, eliminate loan documentation deficiencies, limit its loan volume to a specific relationship to deposits, adopt and follow an acceptable written loan policy, discontinue cash dividends, adopt acceptable internal control and audit procedures, adopt a policy prohibiting preferential treatment to insiders, and obtain a certain level of capital if continued insured status was desired.

29	Deposits - $27,558,000	Assets - $33,583,000

Notice of Intention to Terminate Insured Status issued 9-19-77. Bank was found to be in an unsafe and unsound condition and ordered to provide acceptable management, not to extend credit directly or indirectly to or for the benefit of the controlling shareholder, his relatives or related interests, eliminate or reduce adversely classified assets, eliminate concentrations of credit, correct violations of laws and regulations, adopt and follow acceptable loan and investment policies, discontinue cash dividends, adopt an investment policy to provide adequate liquidity, eliminate loan documentation deficiencies, provide additional capital, and obtain a certain level of capital if continued insured status was desired.

Order terminated 9-24-77 following sale of controlling interest and agreement to remove a significant volume of losses.

30	Deposits - $8,777,000	Assets - $8,886,000

Notice of Intention to Terminate Insured Status issued 12-16-77. Bank was found in an unsafe and unsound condition and ordered to provide acceptable management, eliminate or reduce adversely classified assets, obtain current credit and other supporting documentation for all existing loans and other extensions of credit, eliminate concentrations of credit, eliminate without loss or liability to the bank all overdrafts to and prohibit future overdrafts to directors, officers, employees, or their interests, establish specific parameters for extensions of credit to insiders, restrict loan volume, adopt and ahere to an internal audit program and loan and investment policies, develop adequate liquidity, correct internal control deficiencies and violations of laws, rules and regulations, discontinue cash dividends, and obtain a certain level of capital if continued insured status was desired.

EXHIBIT G

FEDERAL DEPOSIT INSURANCE CORPORATION
Federal Deposit Insurance Act - Section 8(b)
(Cease and Desist Actions)
1977

Bank No.	Summary	
62	Deposits - $8,503,000	Assets - $9,303,000
	Consent Cease and Desist Order entered 1-5-77. Bank ordered to cease and desist from unsafe and unsound banking practices and take affirmative action with respect to reduction of adversely classified assets and delinquent loans, adoption of an appropriate written loan policy, prohibition of overdrafts to the bank's official family and, compliance with laws, rules and regulations.	
63	Deposits - $6,839,000	Assets - $7,148,000
	Consent Cease and Desist Order entered 2-1-77, following the issuance of a Temporary Cease and Desist Order. Bank ordered to cease and desist from extending credit of any kind, direct or indirect, in any amount in excess of $5,000, to any insider of the bank or person related to an insider; and from entering into any business transaction in any amount in excess of $5,000 with any insider or person related to an insider of the bank.	
64	Deposits - $18,746,000	Assets - $20,709,000
	Consent Cease and Desist Order entered 2-1-77. Bank ordered to cease and desist from unsafe and unsound practices and take affirmative action with respect to reduction of adversely classified assets; preparation of a list of and elimination of overdrafts to insiders; injection of new capital; provisions for adequate internal controls, outside audit and loan policy; and compliance with laws, rules, and regulations, including consumer protection laws.	
65	Deposits - $6,150,000	Assets - $6,783,000
	Consent Cease and Desist Order entered on 2-1-77. Bank ordered to cease and desist from unsafe and unsound banking practices and take affirmative action with regard to a comprehensive audit, the development and implementation of adequate internal controls, the full and complete compliance with consumer protection statutes, and the correction of all other violations of laws, rules, and regulations.	

EXHIBIT G

Bank No.	Summary
66	Deposits - $7,662,000 Assets - $8,846,000 Consent Cease and Desist Order entered 2-1-77. Bank ordered to cease and desist from unsound and unsafe banking practices and take affirmative action with respect to acceptable management, reduction of classified assets, adoption of an appropriate written loan policy, compliance with laws, rules and regulations, elimination of adversely classified loans to insiders and loans to persons residing outside the bank's normal trade area, reduction of the volume of loans to the bank's official family and delinquent loans, maintenance of adequate cash reserves, reduction of salaries, bonuses, expense allowances and management fees to the president and one director, and discontinuance of cash dividends.
67	Deposits - $16,587,000 Assets - $17,983,000 Consent Cease and Desist Order entered 2-1-77. Bank ordered to cease and desist from unsafe and unsound practices and to take affirmative action with respect to acceptable management, reduction of adversely classified assets, injection of capital, compliance with laws, adopt and follow acceptable loan and investment policies, reduction of credit extended to insiders, reduction of total overdue loans, and discontinuance of cash dividends.
68	Deposits - $18,912,000 Assets - $20,687,000 Consent Cease and Desist Order entered 3-15-77. Bank ordered to cease and desist from unsafe and unsound practices and take affirmative action with respect to acceptable management, independent and realistic appraisals of real estate maintained as collateral, elimination of assets classified Loss and Doubtful, discontinuance of loans to certain insiders, limitation of lines of credit to and reduction of concentrations of credit to a specific relationship to capital and reserves, an injection of capital, elimination of loan documentation deficiencies, prohibition from repurchase of asset participations sold without recourse, restrict participations sold to a nonrecourse basis, compliance with laws, and discontinuance of cash dividends.
69	Deposits - $9,286,000 Assets - $10,484,000 Consent Cease and Desist Order entered 6-27-77. Bank ordered to cease and desist from unsafe and unsound practices and take affirmative action with respect to elimination of losses and 50 percent of Doubtful classifications, prohibition from extensions of credit to certain insiders, limitation of lines of credit to a specific relationship to capital and reserves, reduction of concentrations of credit, an injection of capital, elimination of loan documentation exceptions, prohibition from repurchase of asset participations sold without recourse, restriction of participations sold to a nonrecourse basis, compliance with laws, discontinuance of cash dividends.

EXHIBIT G

Bank No.	Summary	
70	Deposits - $9,538,000	Assets - $9,751,000

Consent Cease and Desist Order entered 2-15-77. Bank ordered to cease and desist from unsafe and unsound practices and take affirmative action with respect to acceptable management, reduction of adversely classified assets, establish repayment schedules for loans, elimination of loan documentation exceptions, reduction of concentrations of credit, discontinuance of overdrafts to insiders, reduction of total outstanding loan volume, adoption of written loan and investment policies, adoption of a program to provide adequate liquidity, an injection of capital, adoption of a written internal audit program, compliance with laws and regulations, and discontinuance of cash dividends.

71	Deposits - $11,982,000	Assets - $13,513,000

Consent Cease and Desist Order entered 3-15-77. Bank ordered to cease and desist from unsafe and unsound practices and take affirmative action with respect to acceptable management, reduction of classified assets and overdue loans, adoption of written lending, collection and investment policies, discontinuance of participation transactions with and reduction in deposit balances with related banks, elimination of adversely classified loans to insiders, reduction of loan volume, restrict salaries, fees, bonuses and expense allowances to amounts commensurate with services performed by directors, officers and employees, correction of violations of law, discontinuation of cash dividends, and an injection of capital.

72	Deposits - $14,570,000	Assets - $16,926,000

Consent Cease and Desist Order entered 3-15-77. Bank was ordered to cease and desist from unsafe and unsound practices and take affirmative action with respect to acceptable management, reduction of adversely classified assets, adoption of lending, collection and investment policies, reduction of remuneration paid to the bank's president, discontinuance of participation transactions, and reduction of deposit balances with related banks, elimination of loans originating outside the bank's normal trading area, elimination of adversely classified loans to insiders, reduction of loan volume, an injection of capital, correction of violations of law, and discontinuance of cash dividends.

73	Deposits - $15,159,000	Assets - $16,710,000

Consent Cease and Desist Order entered 4-5-77. Bank was ordered to cease and desist from unsafe and unsound practices and take affirmative action with respect to acceptable management, reduction of adversely classified assets, adoption of acceptable lending, collection and investment policies, reduction in concentrations of credit, correction of violations of law, correction of loan documentation deficiencies, implementation of proper accrual accounting methods, disclosure to shareholders of all details concerning an insider operated credit life insurance agency on the bank's premises and adequate reimbursement to the bank for use of premises, personnel and equipment, and prohibition of extending credit to a certain insider.

EXHIBIT G

Bank No.	Summary	
74	Deposits - $10,520,000	Assets - $11,518,000

Consent Cease and Desist Order entered 6-13-77 after a preliminary hearing. Bank ordered to cease and desist from unsafe and unsound practices and take affirmative action with respect to reduction of adversely classified assets, extensions of credit in the form of overdrafts to employees, trade area limitations, provisions for adequate collateral and credit file documentation, internal controls and outside audit, injection of new capital, acceptable management, and compliance with laws, rules and regulations.

75 Deposits - $9,119,000 Assets - $10,596,000

Consent Cease and Desist Order entered 4-19-77. Bank ordered to cease and desist from unsafe and unsound practices and take affirmative action with respect to compliance with insider regulations, reduction of adversely classified assets, injection of new capital, provision for adequate liquidity, compliance with laws, rules and regulations, loan policy, and discontinuance of cash dividends.

76 Deposits - $24,733,000 Assets - $26,489,000

Consent Cease and Desist Order entered 4-19-77. Bank ordered to cease and desist from violations of consumer protection laws and to take affirmative action to correct these violations and develop procedures to assure future compliance.

77 Deposits - $3,012,000 Assets - $3,204,000

Consent Cease and Desist Order entered 5-3-77 to assure additional correction following simultaneous discontinuance of a Section 8(a) citation. Bank ordered to cease and desist from unsafe and unsound practices and take affirmative action with respect to acceptable management, reduction of adversely classified assets, restrictions on loan volume and type of securities investments, limitations on and elimination of adversely classified insider loans, provision for adequate liquidity, injection of new capital, compliance with laws, rules and regulations, loan policy, and discontinuance of cash dividends.

78 Deposits - $6,765,000 Assets - $7,753,000

Consent Cease and Desist Order entered 5-23-77. Bank ordered to cease and desist from unsafe and unsound practices and take affirmative action with respect to acceptable management, reduction of adversely classified assets, adoption of written lending, collection and investment policies, injection of new capital, correction of violations, reduction of loan volume and discontinuance cash dividends.

EXHIBIT G

Bank No.	Summary	
79	Deposits - $7,337,000	Assets - $8,114,000

Consent Cease and Desist Order entered 5-23-77. Bank ordered to cease and desist from and take affirmative action with respect to violations of the Truth-in-Lending Act and future compliance.

80	Deposits - $21,774,000	Assets - $23,956,000

Consent Cease and Desist Order entered 6-13-77. Bank ordered to cease and desist from unsafe and unsound practices and take affirmative action with respect to acceptable management; loan policy; reduction of adversely classified assets and concentrations of credit; restrictions on insider loans; use of methods to avoid recognition of past due loans; compliance with laws, rules, and regulations; administration of the trust department; and discontinuance of cash dividends.

81	Deposits - $19,971,000	Assets - $21,587,000

Consent Cease and Desist Order entered 6-13-77. Bank ordered to cease and desist from unsafe and unsound practices and take affirmative action with respect to acceptable management, reduction of adversely classified assets, loan policy, reduction of loan volume, and discontinuance of cash dividends.

82	Deposits - $29,792,000	Assets - $32,832,000

Consent Cease and Desist Order entered 6-13-77. Bank ordered to cease and desist from unsafe and unsound practices and take affirmative action with respect to reduction of adversely classified assets, reduction of overdue loans, elimination of loan documentation deficiencies, and loan policy.

83	Deposits - $12,627,000	Assets - $13,757,000

Consent Cease and Desist Order entered 6-13-77 to replace a temporary cease and desist order. Bank ordered to cease and desist from unsafe and unsound practices and take affirmative action with respect to reduction of loans to the chairman and his interests, prohibition of additional credit to the chairman until his loans were reduced below that level, restrict opening an approved but unopened branch office until changes in the plans for the branch were approved, acceptable management, reduction in classified assets, increase capital to a certain level, adoption of loan and investment policies, compliance with laws and regulations, and discontinuance of cash dividends.

EXHIBIT G

Bank No.	Summary	
84	Deposits - $10,452,000	Assets - $11,165,000

Consent Cease and Desist Order entered on 6-13-77. Bank ordered to cease and desist from unsafe and unsound practices and take affirmative action with respect to acceptable management, providing additional directors reduction of adversely classified assets and overdue loans, loan policy, and discontinuance of cash dividends.

85	Deposits - $9,360,000	Assets - $10,204,000

Consent Cease and Desist Order entered 6-27-77 to replace a temporary order to cease and desist. Bank ordered to cease and desist from unsafe and unsound practices and take affirmative action with respect to reduction of adverse classifications; adoption of written lending policies; collection of outstanding and limitations on future out-of-area loans; limitations on credits to or for the benefit of one borrower, elimination of loan documentation deficiencies, prohibition of repurchase of participations sold without recourse, recording on the books any liability for repurchase agreements outstanding; correction of all violations of laws and regulations, including consumer law violations; injection of new capital; review of all compensation to bank officers; limitations on bonuses and expense allowances to or for officers; review of income and expense statements monthly; disclosure to the shareholders of all details on an insider credit life insurance agency operated on the premises, approval of two-thirds of any decision not to retain such income for the bank but in any event reasonable reimbursement to the bank for use of premises, personnel and equipment; discontinuance of cash dividends; compliance with a separate letter agreement between the bank and the chartering authority; reimbursement for nonbank related expenses paid to the former controlling shareholder and requires the former control owners to repay such expenses; efforts to collect loans made to or related to the former control owners and prohibition of any new credit to these individuals; and review and a possible revision of the interest rate being paid on a certificate of deposit held by the present control owners.

86	Deposits - $13,280,000	Assets - $14,337,000

Consent Cease and Desist Order entered 7-14-77. Bank ordered to cease and desist from unsafe and unsound practices and take affirmative actions with respect to acceptable management, injection of new capital, adoption and adherence to acceptable written lending and investment policies, reduction of adverse classifications, elimination of overdrafts to insiders, elimination of certain insider loans, and compliance with laws, rules, and regulations.

87	Deposits - $7,244,000	Assets - $8,192,000

Consent Cease and Desist Order entered 7-28-77, replacing a temporary cease and desist order. Bank ordered to cease and desist from unsafe and unsound practices and take affirmative action with respect to correction of violations of law, a review of the compensation paid to the chairman of the board and his interests, reductions in classified assets, continued efforts to obtain fidelity coverage, and discontinuance of dividends.

EXHIBIT G

Bank No.	Summary	
88	Deposits - $51,009,000	Assets - $57,061,000
	Consent Cease and Desist Order entered 9-9-77. Bank ordered to cease and desist from and take affirmative action with respect to violations of consumer protection laws and future compliance.	
89	Deposits - $5,648,000	Assets - $6,508,000
	Consent Cease and Desist Order entered 10-25-77 to replace a temporary order to cease and desist. Bank ordered to cease and desist from unsafe and unsound practices and take affirmative action with respect to reduction of loan volume, adoption of written lending policies, collection of outstanding and limitations on future out-of-area loans, limitations on credit to or for the benefit of two or more obligors where payment is based upon the assets of or revenue derived from the same source, elimination of loan documentation deficiencies, prohibition of repurchase of participations sold without recourse, recording on the books any liability for repurchase agreements outstanding, correction of all violations of laws and regulations, review of and restrictions on all compensation to and expense allowances of directors and officers, restrictions on payment of cash dividends, compliance with a separate letter agreement between the bank and the chartering authority, efforts to collect loans made to or related to the former control owners and prohibition of any new credit to these individuals, correction of internal control deficiencies, and retention of and reimbursement of commissions from a credit life insurance business operated on the premises by present and former insiders.	
90	Deposits - $8,729,000	Assets - $9,609,000
	Consent Cease and Desist Order entered 10-25-77. Bank ordered to cease and desist from unsafe and unsound practices and take affirmative action with respect to acceptable management; reduction of adversely classified assets and loan volume; restrictions on loans, salaries and bonuses to insiders; restriction on participation loans; correction of internal control and loan documentation deficiencies; adoption of acceptable loan policy; and compliance with laws, rules, and regulations.	

EXHIBIT G

Bank No.	Summary

91 Deposits - $7,333,000 Assets - $8,638,000

Consent Cease and Desist Order entered 10-25-77 to replace a temporary order to cease and desist. Bank ordered to cease and desist from unsafe and unsound practices and take affirmative action with respect to reduction of adverse classifications and loan volume; adoption of written lending policies; collection of outstanding and limitations on future out-of-area loans; limitations on credits to insiders and credit to or for the benefit of two or more obligors where payment is based upon the assets of or revenue derived from the same source; prohibition of repurchase of participations sold without recourse; recording on the books any liability for repurchase agreements outstanding; correction of all violations of laws and regulations; review of and restrictions on all compensation to and expense allowances of directors and officers; disclosure to the shareholders of all details of a credit life insurance agency operated on the premises by present and former insiders, approval of two-thirds of any decision not to retain such income for the bank but in any event reasonable reimbursement to the bank for use of premises, personnel and equipment; restrictions on payment of cash dividends; and efforts to collect loans made to or related to the former control owners and prohibition of any new credit to these individuals.

92 Deposits - $6,580,000 Assets - $7,683,000

Consent Cease and Desist Order entered 11-14-77. Bank ordered to cease and desist from unsafe and unsound practices and take affirmative action with respect to acceptable management, reduction of adversely classified assets and loan volume, injection of new capital, loan and investment policies, compliance with laws, rules and regulations, provisions for adequate internal controls and loan valuation reserve, and discontinuance of cash dividends.

93 Deposits - $8,841,000 Assets - $9,605,000

Consent Cease and Desist Order entered 11-14-77. Bank ordered to cease and desist from unsafe and unsound practices and take affirmative action with respect to prohibiting a former executive officer from participating in the affairs of the bank as denied by the Corporation under Section 19 of the FDI Act.

EXHIBIT G

Bank No.	Summary	
94	Deposits - $4,551,000	Assets - $4,986,000

Consent Cease and Desist Order entered 11-14-77. Bank ordered to cease and desist from unsafe and unsound practices and take affirmative action with respect to reduction of adversely classified assets; restrictions on loans involving affiliates; compliance with laws, rules, and regulations; loan policy; injection of new capital; and discontinuance of cash dividends.

95	Deposits - $133,180,000	Assets $138,540,000

Consent Cease and Desist Order entered 11-30-77. Bank ordered to cease and desist from unsafe and unsound practices and take affirmative action with respect to executive committee supervision, acceptable management, reduction of adversely classified assets, restrictions on credit extended insiders and any obligor or related interest, loan policy, injection of new capital, and compliance with laws, rules and regulations.

96	Deposits - $11,224,000	Assets - $12,122,000

Consent Cease and Desist Order entered 12-16-77 to replace a temporary order to cease and desist. Bank ordered to cease and desist from unsafe and unsound practices and take affirmative action with respect to acceptable management; reduction of adverse classifications, loan volume, and concentrations of credit; adoption of written lending policies; collection of outstanding and limitations on future out-of-area loans; limitations on credits to insiders or for the benefit of two or more obligors where payment is based on the assets of or revenue derived from the same source; elimination of loan documentation deficiencies; prohibition of repurchase of participations sold without recourse; recording on the books any liability for repurchase agreements outstanding; correction of all violations of laws and regulations; injection of new capital; review of and restrictiions on all compensation to and expense allowances of directors and officers; review of income and expense statements monthly; disclosure to the shareholders of all details of a credit life insurance agency operated on the premises by present and former insiders, approval of two-thirds of any decision not to retain such income for the bank but in any event reasonable reimbursement to the bank for use of premises, personnel and equipment; restrictions on payment of cash dividends; compliance with a separate letter agreement between the bank and the chartering authority; efforts to collect loans made to or related to the former control owners and prohibition of any new credit to these individuals; prohibition of use of brokered deposits; correction of internal control deficiences; and accurate accrual accounting procedures.

EXHIBIT G

Bank No.	Summary	
97	Deposits - $4,360,000	Assets - $6,157,000

Consent Cease and Desist Order entered 12-16-77. Bank ordered to cease and desist from unsafe and unsound practices and take affirmative action with respect to acceptable management; reduction of adversely classified assets, loan volume, and overdue loans; adoption and adherence to written loan policies; compliance with laws and regulations; elimination of out-of-territory loans; maintenance of adequate cash reserves; injection of new capital; and discontinuance of cash dividends.

98	Deposits - $32,168,000	Assets - $36,934,000

Consent Cease and Desist Order entered 12-16-77. Bank ordered to cease and desist from unsafe and unsound practices and take affirmative action with respect to acceptable management; reduction of adversely classified assets, loan volume and concentrations of credit; restrictions on loans to any obligor or related interests; loan policy; other real estate; conservation of earnings by reduction of expenses; correction of internal control deficiencies; compliance with laws, rules, and regulations; injection of new capital; and discontinuance of dividends.

99	Deposits - $6,155,000	Assets - $7,086,000

Consent Cease and Desist Order entered 12-16-77. Bank ordered to cease and desist from unsafe and unsound practices and take affirmative action with respect to acceptable management, restrictions on extensions of credit to one obligor and related interests, restrictions on present and future obligations of a certain insider and the bank's audit firm, adoption of a written loan policy, correction of violations of laws and regulations, elimination of internal control and loan documentation deficiencies, restrictions on loan volume, retention of credit life and accident commissions, limitations on cash dividends, and compliance with the provisions of an outstanding state order.

100	Deposits - $6,335,000	Assets - $7,171,000

Consent Cease and Desist Order entered 12-16-77. Bank ordered to cease and desist from unsafe and unsound practices and take affirmative actions with respect to reduction of adversely classified and criticized assets and loan volume, restrictions on loans to one obligor and related interests, adoption and compliance with loan and investment policies, correction of violations of laws, rules and regulations, injection of new capital, and discontinuance of dividends.

EXHIBIT G

Bank No.	Summary
101	Deposits - $29,229,000 Assets - $31,183,000 Consent Cease and Desist Order entered 12-16-77. Bank ordered to cease and desist from unsafe and unsound practices and take affirmative action with respect to acceptable management, reduction of adversely classified assets and loan volume, adoption of and compliance with loan and investment policies, restrictions on compensation and expense allowances paid directors, collection of classified loans to insiders and restrictions on other loans to insiders, disclosure of and restrictions on credit life insurance business operated on the premises by an insider, injection of new capital, compliance with laws, rules, and regulations, and discontinuance of cash dividends.
102	Deposits - $23,481,000 Assets - $26,690,000 Cease and Desist Order entered 12-16-77. Bank ordered to cease and desist from unsafe and unsound practices and take affirmative action with respect to acceptable management; injection of new capital; reduction of adversely classified loans, loan volume and concentrations of credit; restrictions on credit extended to one obligor and his interests; collection of and prohibition of overdrafts to insiders; loan policy; disclosure of fees paid to law firm of a director; compliance with laws, rules and regulations; and loan policy.
103	Deposits - $9,622,000 Assets - $11,281,000 Cease and Desist Order entered 12-16-77. Bank ordered to cease and desist from unsafe and unsound practices and take affirmative action with respect to acceptable management; reduction of adversely classified assets and overdue loans; loan policy; limitation on overdraft volume; collection of and prohibition of overdrafts to insiders; adoption of an overdraft policy; collection of and prohibition of new loans to a certain borrower; restrictions on extensions of credit to insiders and out-of-area borrowers; limitations on fees and compensation to directors; elimination of loan documentation deficiencies; fidelity coverage; outside audit; compliance with laws, rules and regulations; liquidity provisions; and discontinuance of cash dividends.
104	Deposits - $4,117,000 Assets - $4,517,000 Consent Cease and Desist Order entered 12-16-77. Bank ordered to cease and desist from unsafe and unsound practices and take affirmative action with respect to acceptable management; reduction of adversely classified assets and overdue loans; elimination of out-of-area loans; adoption of acceptable loan policies; compliance with laws, rules and regulations; audit procedures; disclosures and restrictions relating to a credit life insurance business operated on bank premises by an insider; discontinuance of dividends; and injection of new capital.

EXHIBIT G

Bank No.		Summary
105	Deposits - $4,462,000	Assets - 4,893,000

Consent Cease and Desist Order entered 12-16-77. Bank ordered to cease and desist from unsafe and unsound practices and take affirmative action with respect to acceptable management; reduction of adversely classified assets and overdue loans; compliance with laws, rules and regulations; loan policy; injection of new capital; and discontinuance of dividends.

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EXHIBIT G

FEDERAL DEPOSIT INSURANCE CORPORATION
Federal Deposit Insurance Act - Section 8(c)
(Temporary Cease and Desist Actions)
1977

Bank No.	Summary	
6	Deposits - $12,627,000	Assets - $13,757,000

Temporary Cease and Desist Order issued 3-17-77. Bank was ordered to cease and desist from extending any credit to or for the benefit of the bank's chairman of the board or to any individual or entity whereby the proceeds of such credit would accrue, directly or indirectly, to the benefit of the chairman of the board. The bank was also ordered to cease and desist from opening a previously approved but unopened branch office pending completion of these administrative proceedings.

A permanent cease and desist order was issued on 6-13-77.

7	Deposits - $6,981,000	Assets - $7,575,000

Temporary Cease and Desist Order issued 4-1-77. The bank and its officials were ordered to cease and desist from offering, selling and offering for sale and transferring on the bank's books any stock of subject bank owned directly, indirectly or beneficially by any of the directors; making any further payments of any kind under a lease between the bank and a partnership composed of the directors; and, entering into any business transactions or extension of credit with any bank insider or person related to a bank insider.

The temporary order was terminated on 6-13-77.

8	Deposits - $11,224,000	Assets - $12,122,000

Temporary Cease and Desist Order issued 5-11-77. The bank was ordered to cease and desist from entering into any business transaction with and/or from extending direct or indirect credit to or for the benefit of the bank's former chairman of the board, his wife, or any persons related to them.

A permanent cease and desist order was issued on 12-16-77.

9	Deposits - $5,648,000	Assets - $6,508,000

Temporary Cease and Desist Order issued 5-11-77. The bank was ordered to cease and desist from entering into any business transaction with and/or from extending direct or indirect credit to or for the benefit of the bank's former chairman of the board, his wife, or any person related to them.

A permanent cease and desist order was issued on 10-25-77.

Bank No.	Summary	
10	Deposits - $3,370,000	Assets - $3,672,000

Temporary Cease and Desist Order issued 5-11-77. The bank was ordered to cease and desist from entering into any business transaction with and/or from extending direct or indirect credit to or for the benefit of the bank's executive vice president, his wife, or any person related to them.

The temporary order remains outstanding.

11	Deposits - $9,360,000	Assets - $10,204,000

Temporary Cease and Desist Order issued 5-11-77. Bank was ordered to cease and desist from entering into any business transaction with and/or from extending any direct or indirect credit to or for the benefit of the former chairman of the board, his wife, or any person related to them.

A permanent cease and desist order was issued on 6-27-77.

12	Deposits - $7,333,000	Assets - $8,638,000

Temporary Cease and Desist Order issued 5-11-77. Bank was ordered to cease and desist from entering into any business transaction with and/or extending any direct or indirect credit to or for the benefit of the former chairman of the board, his wife, or any person related to them.

A permanent cease and desist order was issued on 10-25-77.

13	Deposits - $102,558,000	Assets - $115,319,000

Temporary Cease and Desist Order issued 9-19-77. The bank was ordered to cease and desist from entering into any business transactions which exceed $10,000 in the aggregate with the chairman of the board, his interests, or any person related to him.

The order remains outstanding.

EXHIBIT H

Insured State Nonmember Banks Closed in 1977

A description of the causes of failure for the four insured state nonmember banks that failed during 1977 follow:

Summary

Name and Location	Date Closed	Total Assets	Total Deposits
First State Bank Foss, Oklahoma	3-10-77	$2,040,000	$1,780,000

The principal causes of failure involved the payment of checks drawn by the bank's chairman and control owner against uncollected funds, resulting in a very large overdraft, and massive loan losses, most involving a used car dealer.

The Monroe Bank and Trust Company Monroe, Connecticut	3-28-77	$4,300,000	$2,800,000

The bank failed as a result of operating and loan losses resulting from inept management and inadequate board supervision.

First Augusta Bank & Trust Company Augusta, Georgia	5-20-77	$24,200,000	$21,000,000

The bank failed primarily because of losses involving speculative loans to directors, a large stockholder, their business associates and two former directors. The bank also suffered from liquidity problems, and resorted to the use of brokered deposits.

Donahue Savings Bank Donahue, Iowa	8-26-77	$5,500,000	$5,200,000

The bank failed as a result of an embezzlement involving the bank's chief executive officer and largest stockholder.

	TOTAL	$36,040,000	$30,780,000

EXHIBIT I

State Nonmember Banks Merged During 1977
Under the Emergency Provisions of Section 18(c) of FDI Act

Name and Location	Date Merged	Total Assets	Tota Deposits
First Piedmont Bank and Trust Company Greenville, South Carolina	3-16-77	$ 45,382,000	$ 41,598,000

Bank merged under emergency provisions of the FDI Act. The bank had an excessive volume of poor loans, many of which were real estate related, but its most serious problem was the precarious financial condition of its parent one bank holding company. The parent had suffered heavy losses in its nonbanking subsidiaries and was unable to continue rolling over its substantial volume of commercial paper outstanding. A Cease and Desist Order was outstanding against the bank at the time of its merger.

Banco Economias San German, Puerto Rico	9-2-67	$ 213,505,000	$ 169,999,000

Bank merged under emergency provisions of the FDI Act into a newly organized bank, at which time the Corporation purchased $15 million in book value of distressed assets of Banco Economias. The bank's major problem was a heavy volume of marginal real estate related loans which were funded during a period of heavy emphasis on deposit growth. The depressed economy of the trade area contributed to the problem, which resulted in a virtual elimination of the capital accounts due to heavy loan losses and declining revenues due to the heavy volume of nonaccrual loans and other real estate held.

Bank of Stratford Stratford, Connecticut	12-31-77	$ 12,971,000	$ 11,918,000

Bank merged under emergency provisions of the FDI Act. The problems of this relatively new bank resulted from a self-serving and inept directorate combined with poor active management which followed unacceptable lending practices and credit administration. The result was a heavy volume of poor loans, massive loan losses, a steady erosion of capital due to continued operating losses, and a strained liquidity posture. A Cease and Desist Order was outstanding against the bank at the time of the merger.

Total		$ 271,858,000	$ 223,515,000

EXHIBIT J

FDIC PRACTICE REGARDING INTERNATIONAL MONETARY FUND DISCIPLINARY STANDBY AGREEMENTS

QUESTION 6

The FDIC has not formulated a statement of policy or a manual of procedures directed toward assuring compliance by foreign governments with the terms of disciplinary standby agreements with the International Monetary Fund (IMF). It is the position of the FDIC, and we believe the other two bank regulatory agencies, that adherence to such agreements is essentially a matter between the foreign government and the IMF and that involvement by Federal bank regulators in assuring conformance to IMF disciplinary mandates appears beyond the agencies' statutory powers. However, as part of a bank examination, the customary review of credit extensions to foreign governments subject to IMF standby agreements would include, as a practical matter, consideration of compliance with IMF dictums as they pertain to the creditworthiness of the borrowing nation.

EXHIBIT K

FEDERAL DEPOSIT INSURANCE CORPORATION, Washington, D.C 20429

OFFICE OF DIRECTOR • DIVISION OF BANK SUPERVISION

BL-4-78
January 20, 1978

TO THE CHIEF EXECUTIVE OFFICER OF THE
INSURED STATE NONMEMBER COMMERCIAL BANK ADDRESSED:

Subject: **Country Exposure Report**

You will recall that last July your bank was requested to participate in an experimental program directed toward the development of a comprehensive survey of foreign lending activity by U.S. commercial banks. Attached hereto is a press release issued by the three federal bank regulatory agencies which summarizes the data reported as of June 30, 1977 for 119 banks with assets of $1 billion or more. Due to the success of this initial experiment, the regulatory agencies have agreed to institute the report as a standard reporting vehicle to be filed semiannually by banks with material foreign banking activities beginning with the period ending December 31, 1977. The results of future surveys will also be made public.

We thank you for your cooperation in the June 30, 1977 survey and your continued interest in contributing to strengthening the flow of mutually beneficial information between the banking industry and the banking agencies.

John J. Early
Director

(Enclosures not available for internal distribution)
Distribution: Selected Banks

FEDERAL RESERVE

press release

For immediate release

January 16, 1978

Country Exposure Lending Survey

The results of a survey of foreign lending by large United States banks as of June 30, 1977 were made public today by the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Federal Reserve Board.

The survey was made to increase the information available on foreign lending, on a country-by-country basis. The data reported cover claims on foreign residents held at all domestic and foreign offices of 119 U.S. banks with assets of $1 billion or more.

Based on the experience of this survey, the bank regulatory agencies have instituted a semi-annual "Country Exposure Report" to begin with data for December 1977. Results of future reports will be published approximately four months after the reporting date.

Types of Loans

The information gathered in the survey concentrated on data concerning lending from a bank's offices in one country to residents of another country, or lending in a currency other than that of the borrower. These are known as cross-border or cross-currency loans.

Cross-border and cross-currency loans are those most closely associated with country risk. As shown in Table I, these claims totaled $164 billion on the reporting date. About 42 per cent of such foreign lending was accounted for by claims on residents of Switzerland and the Group of

Ten (G-10) developed countries. Another 20 per cent represented loans to residents of "other developed countries" and "offshore banking centers."[1/] Cross-border and cross-currency claims on residents of non-oil producing less developed countries amounted to approximately $40 billion, or some 24 per cent of the total.

In addition, the banks reported $44 billion in local currency claims that were held by their offices in foreign countries on residents of the country in which the office was located. An example would be Deutsche Mark claims on German residents held by the German branch of the reporting U.S. bank. To a large extent, these local currency claims were matched by $37 billion in local currency liabilities due to local residents. Approximately 75 per cent of these claims were on residents of Switzerland and the G-10 countries.

Maturities

The survey provided for the first time comprehensive data on the type of customer and the maturity distribution of banks' claims on foreigners (Table 1). About 63 per cent of the reported cross-border and cross-currency claims had a maturity of under one year. Such short-term claims were especially prominent in the G-10 countries and the offshore banking centers where, combined, $64 billion out of $85 billion in claims matured in less than one year. This heavy concentration of short-term claims reflects the large volume of interbank lending in

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1/ Countries where multinational banks conduct a large international money market business.

these countries. Most such placements of deposits are for very short periods.

For most other groups of countries, short-term claims accounted for about one-half of total claims although the proportion varied significantly among individual countries.

Type of Borrower

With regard to type of customer, private nonbank sector lending was the largest, accounting for $63 billion. Other types of lending were placements with banks amounting to $59 billion, and loans to the public sector totaling $42 billion. This last category includes foreign central governments, their political subdivisions and agencies and commercial non-bank enterprises owned by government. This distribution varied significantly from country to country. Here also, most of the claims on banks were on those located in the G-10 countries and the offshore banking centers.

Guarantees

In Table II, information is provided on the cross-border and cross-currency claims that are guaranteed by residents of another country. Claims are reallocated from the country of residence of the borrower to another country on two grounds: First, claims on a bank branch located in one country where the head office is located in another country are allocated to the country of the head office. Since a branch is legally a part of the parent, claims on a branch are treated as being guaranteed by the head office. Second, claims on a borrower in one country which are formally guaranteed by a resident of another country are allocated to the latter country. These reallocations are thought to provide a better approximation of country exposure in the banks' portfolios than the unadjusted figures.

The results of the reallocations appear in the last column of Table II. Most of the shifts are accounted for by the transfer of claims on branches (and, where guaranteed, subsidiaries) of banks to their head offices ($25 billion out of $33 billion). In general, the reallocations primarily affected the offshore banking centers and some of the developed countries. For example, claims on the offshore banking centers decreased from $16.8 billion to $4.4 billion and claims on the United Kingdom decreased from $25 billion to $15.8 billion.

For most less developed countries, a relatively small portion of claims is externally guaranteed. The total shown for claims on foreigners by country of guarantor is about $150 billion or $14 billion less than the total for claims by country of borrower. This results from U.S. residents guaranteeing about $16.5 billion in claims on foreigners and foreign residents guaranteeing about $2.5 billion of claims on U.S. residents.

Commitments to Provide Funds for Foreigners

The survey also provided information on commercial letters of credit and other contingent claims on foreigners. The banks were asked to report such contingent claims only where the bank had a legal obligation to provide funds. As shown in Table III, the amounts reported total $42 billion, with 75 per cent of that total being on the private sector, including banks.

Use of the Data

The results of the survey need to be interpreted with some caution. The survey was experimental in nature, and it was recognized that all banks might not be able to furnish the requested information in the short period of time they were given. As a result, certain deviations from the instructions were permitted and in a limited number of cases, data were estimated for banks that were unable to report all items requested. In particular, some banks were permitted to report claims by "country of the guarantor" rather than by country of the borrower's residence. Gross claims on some countries (particularly the banking centers) may, as a result, be somewhat understated.

In addition, the reported contingent claims may be somewhat overstated, particularly as regards the private sector, because some banks included advised lines (where actual extensions of credit under such lines of credit might not be obligatory). In spite of these difficulties, it is believed that the reported data provide a representative profile of the foreign claims of U.S. banks.

Attachment

Table I Cross-border and Non-local Currency Claims by Residence of Borrower: June 1977
(in millions of dollars)

Country	Total Claims	Claims on: Banks (Placements)	Claims on: Public borrowers	Claims on: Other private	Maturity Distribution of Claims: One year and under	Maturity Distribution of Claims: Over one year
G-10 and Switzerland						
Belgium/Luxembourg	4,212	3,601	90	521	3,848	365
France	6,840	4,757	692	1,392	5,430	1,410
Germany	4,048	1,661	232	2,155	2,983	1,065
Italy	5,055	2,177	1,717	1,161	2,812	2,243
Netherlands	2,764	1,934	117	714	2,424	341
Sweden	1,749	670	314	765	908	840
Switzerland	1,880	1,021	103	756	1,752	128
United Kingdom	25,138	17,363	2,475	5,301	19,090	6,049
Canada	5,117	3,179	680	1,258	4,152	965
Japan	11,754	1,777	289	9,688	7,462	4,292
	68,557	38,140	6,709	23,711	50,861	17,698
Non G-10 Developed Countries						
Austria	939	665	191	84	775	165
Australia	1,355	144	26	1,185	840	514
Finland	1,210	313	262	635	591	619
Greece	1,770	268	603	898	592	1,177
Iceland	86	1	38	47	11	74
New Zealand	417	26	199	193	143	275
Norway	1,844	121	254	1,469	605	1,238
Portugal	525	16	352	157	377	148
Spain	3,332	849	1,264	1,219	1,382	1,950
South Africa	2,201	47	1,186	968	937	1,263
Turkey	1,473	410	448	615	1,023	450
Denmark	1,434	252	467	715	651	783
Ireland	451	103	248	100	167	284
	17,037	3,215	5,538	8,285	8,094	8,940
Eastern Europe						
Bulgaria	416	81	324	12	223	194
Czechoslovakia	154	106	45	3	105	49
East Germany	708	63	592	54	282	427
Hungary	663	252	411	1	292	371
Poland	1,248	161	1,016	72	350	898
Romania	217	94	87	36	157	59
U.S.S.R.	1,592	464	1,112	16	653	940
Yugoslavia	984	15	409	560	171	813
	5,982	1,236	3,996	754	2,233	3,751

Table I Cross-border and Non-local Currency Claims by Residence of Borrower: June 1977
(in millions of dollars)

Country	Total Claims	Claims on: Banks (Placements)	Public borrowers	Other private	Maturity Distribution of Claims: One year and under	Over one year
Oil-Exporting Countries						
Algeria	1,470	18	1,129	322	340	1,130
Ecuador	831	7	392	432	462	369
Indonesia	1,980	132	1,350	498	836	1,144
Iran	1,831	208	653	970	1,031	800
Iraq	88	-0-	76	12	20	68
Kuwait	399	219	37	143	360	39
Libya	128	42	78	9	124	4
Nigeria	70	-0-	14	56	66	4
Qatar	81	6	68	7	56	25
Saudi Arabia	336	40	32	264	291	45
United Arab Emirates	401	181	96	124	249	152
Venezuela	4,548	101	2,452	1,995	2,907	1,640
	12,163	954	6,377	4,832	6,742	5,420
Non-Oil Exporting Developing Countries						
Latin America and Caribbean						
Argentina	1,793	134	946	713	991	802
Bolivia	371	80	104	187	184	187
Brazil	10,588	331	3,748	6,510	3,321	7,267
Chile	620	38	300	281	401	218
Costa Rica	356	10	151	196	178	179
Dominican Republic	239	-0-	56	184	111	128
El Salvador	194	25	62	107	121	74
Guatemala	161	-0-	1	160	73	87
Honduras	181	20	29	132	119	61
Jamaica	251	20	154	77	74	177
Mexico	11,322	423	5,910	4,989	5,459	5,864
Nicaragua	433	14	187	232	268	165
Paraguay	24	-0-	1	23	13	11
Peru	1,904	33	1,328	543	922	982
Trinidad & Tobago	53	38	10	5	48	5
Uruguay	162	87	22	52	76	85
	28,652	1,253	13,009	14,391	12,359	16,292

Table I Cross-border and Non-local Currency Claims by Residence of Borrower: June 1977
(in millions of dollars)

Country	Total Claims	Claims on: Banks (Placements)	Claims on: Public borrowers	Claims on: Other private	Maturity Distribution of Claims: One year and under	Maturity Distribution of Claims: Over one year
Non-Oil Exporting Developing Countries (continued)						
Asia						
China (Taiwan)	2,319	112	1,198	1,009	1,541	778
India	208	11	82	115	55	153
Israel	662	112	249	301	504	158
Jordan	24	-0-	14	10	12	12
Korea (South)	3,216	293	929	1,993	2,274	942
Malaysia	596	82	319	194	224	372
Pakistan	60	33	16	11	57	3
Philippines	1,861	279	522	1,060	1,055	805
Thailand	669	80	97	492	531	138
	9,615	1,002	3,426	5,185	6,253	3,361
Africa						
Egypt	524	78	300	146	463	62
Ghana	21	-0-	-0-	21	8	13
Ivory Coast	271	-0-	138	133	51	220
Morocco	374	11	286	77	128	246
Sudan	174	1	168	5	89	85
Tunisia	55	5	35	15	42	13
Zaire	283	1	275	7	74	208
Zambia	179	-0-	164	15	100	78
	1,881	96	1,366	419	955	925
	40,148	2,351	17,801	19,995	19,567	20,578

Table I Cross-border and Non-local Currency Claims by Residence of Borrower: June 1977
(in millions of dollars)

Country	Total Claims	Claims on: Banks (Placements)	Claims on: Public borrowers	Claims on: Other private	Maturity Distribution of Claims: One year and under	Maturity Distribution of Claims: Over one year
Offshore Banking Centers						
Bahamas	5,905	5,762	12	130	5,822	83
Bahrain	565	537	10	18	554	11
Caymans	2,802	2,707	1	93	2,696	105
Hong Kong	1,286	443	53	789	958	328
Panama	1,896	738	321	837	1,151	746
Singapore	2,366	2,166	34	166	2,271	95
Liberia	1,889	10	15	1,864	430	1,459
Lebanon	125	6	-0-	119	63	62
	16,834	12,369	446	4,016	13,945	2,889
Miscellaneous						
Other Western Europe	222	68	69	85	111	111
Other Eastern Europe	1	-0-	-0-	1	1	-0-
Other Asia/Pacific	470	102	219	148	277	193
Other Middle East	191	82	67	43	152	39
Other Africa	370	2	300	68	164	206
Other Caribbean	1,029	44	84	901	461	569
Other Latin America	1,160	107	367	684	750	409
Other North America	44	-0-	23	21	16	28
	3,487	405	1,129	1,951	1,932	1,555
Grand Total	164,208	58,670	41,996	63,544	103,374	60,831

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Table II Cross-border and Non-local Currency Claims on Foreigners by Country of Guarantor: June 1977
(in millions of dollars)

Country	Total claims (by residence)	Claims guaranteed by residents of other countries: on banks	Claims guaranteed by residents of other countries: on others	Total claims less guaranteed claims	Claims on residents of other countries guaranteed by residents of this country: on banks	Claims on residents of other countries guaranteed by residents of this country: on others	Total claims by country of guarantor
G-10 and Switzerland							
Belgium/Luxembourg	4,212	1,243	131	2,838	191	314	3,343
France	6,840	1,091	270	5,479	1,312	577	7,368
Germany	4,048	139	234	3,675	2,119	587	6,381
Italy	5,055	127	58	4,870	399	264	5,533
Netherlands	2,764	93	109	2,562	221	187	2,970
Sweden	1,749	-0-	9	1,740	48	141	1,929
Switzerland	1,880	79	158	1,643	598	272	2,513
United Kingdom	25,138	9,811	1,200	14,127	1,047	661	15,835
Canada	5,117	42	186	4,889	1,593	212	6,694
Japan	11,754	213	252	11,289	2,467	1,083	14,839
	68,557	12,838	2,607	53,112	9,995	4,298	67,405
Non-G-10 Developed Countries							
Austria	939	35	26	878	46	53	977
Australia	1,355	30	81	1,244	259	44	1,547
Finland	1,210	-0-	17	1,193	72	88	1,353
Greece	1,770	46	80	1,644	5	117	1,766
Iceland	86	-0-	-0-	86	-0-	-0-	86
New Zealand	417	1	8	408	51	12	471
Norway	1,844	2	134	1,708	63	83	1,854
Portugal	525	-0-	7	518	16	3	537
Spain	3,332	30	91	3,211	240	31	3,482
South Africa	2,201	26	38	2,137	63	34	2,234
Turkey	1,473	-0-	47	1,426	1	21	1,448
Denmark	1,434	2	90	1,342	22	84	1,448
Ireland	451	5	12	434	72	1	507
	17,037	177	631	16,229	910	571	17,710
Eastern Europe							
Bulgaria	416	-0-	2	414	-0-	-0-	414
Czechoslovakia	154	2	-0-	152	16	-0-	168
East Germany	708	-0-	-0-	708	2	1	711
Hungary	663	7	10	646	17	-0-	663
Poland	1,248	10	51	1,187	10	20	1,217
Romania	217	7	3	207	1	-0-	208
U.S.S.R.	1,592	7	33	1,552	89	5	1,646
Yugoslavia	984	-0-	89	895	-0-	18	877
	5,982	33	188	5,761	135	44	5,940

Table II Cross-border and Non-local Currency Claims on Foreigners by Country of Guarantor: June 1977
(in millions of dollars)

Country	Total claims (by residence)	Claims guaranteed by residents of other countries		Total claims less guaranteed claims	Claims on residents of other countries guaranteed by residents of this country		Total claims by country of guarantor
		on banks	on others		on banks	on others	
Oil-Exporting Countries							
Algeria	1,470	-0-	162	1,308	-0-	65	1,373
Ecuador	831	18	48	765	-0-	-0-	765
Indonesia	1,980	49	143	1,788	59	8	1,855
Iran	1,831	1	60	1,770	141	24	1,935
Iraq	88	-0-	-0-	88	-0-	-0-	88
Kuwait	399	3	24	372	15	10	397
Libya	128	-0-	-0-	128	2	-0-	130
Nigeria	70	-0-	3	67	-0-	7	74
Qatar	81	-0-	-0-	81	-0-	2	83
Saudi Arabia	336	16	50	270	29	60	359
United Arab Emirates	401	68	2	331	9	18	358
Venezuela	4,548	7	109	4,432	79	12	4,523
	12,163	162	601	11,400	334	206	11,940
Non-Oil Exporting Developing Countries							
Latin America and Caribbean							
Argentina	1,793	8	182	1,603	15	8	1,626
Bolivia	371	24	32	315	-0-	16	331
Brazil	10,588	97	579	9,912	526	63	10,501
Chile	620	-0-	16	604	1	-0-	605
Costa Rica	356	-0-	24	332	-0-	3	335
Dominican Republic	239	-0-	5	234	-0-	-0-	234
El Salvador	194	-0-	10	184	-0-	-0-	184
Guatemala	161	20	20	121	-0-	10	131
Honduras	181	-0-	9	172	-0-	3	175
Jamaica	251	-0-	8	243	9	16	268
Mexico	11,322	89	474	10,759	150	32	10,941
Nicaragua	433	-0-	7	426	2	1	429
Paraguay	24	-0-	-0-	24	-0-	-0-	24
Peru	1,904	17	30	1,857	7	78	1,942
Trinidad & Tobago	53	-0-	-0-	53	-0-	-0-	53
Uruguay	162	-0-	10	152	13	15	180
	28,652	255	1,406	26,991	723	245	27,959

Table II Cross-border and Non-local Currency Claims on Foreigners by Country of Guarantor: June 1977
(in millions of dollars)

Country	Total claims (by residence)	Claims guaranteed by residents of other countries: on banks	Claims guaranteed by residents of other countries: on others	Total claims less guaranteed claims	Claims on residents of other countries guaranteed by residents of this country: on banks	Claims on residents of other countries guaranteed by residents of this country: on others	Total claims by country of guarantor
Non-Oil Exporting Developing Countries (continued							
Asia							
China (Taiwan)	2,319	27	106	2,186	14	5	2,205
India	208	-0-	17	191	19	3	213
Israel	662	2	22	638	108	6	752
Jordan	24	-0-	2	22	32	7	61
Korea (South)	3,216	8	102	3,106	62	58	3,226
Malaysia	596	50	32	514	15	37	566
Pakistan	60	-0-	9	51	5	14	70
Philippines	1,861	5	53	1,803	25	16	1,844
Thailand	669	11	23	635	86	17	738
	9,615	103	366	9,146	366	163	9,675
Africa							
Egypt	524	-0-	27	497	2	1	500
Ghana	21	-0-	3	18	8	-0-	26
Ivory Coast	271	-0-	22	249	-0-	-0-	249
Morocco	374	-0-	20	354	11	19	384
Sudan	174	-0-	75	99	-0-	-0-	99
Tunisia	55	-0-	13	42	5	-0-	47
Zaire	283	-0-	112	171	-0-	-0-	171
Zambia	179	-0-	3	176	3	17	196
	1,881	-0-	275	1,606	29	37	1,672
	40,148	358	2,047	37,743	1,118	445	39,308

Table II Cross-border and Non-local Currency Claims on Foreigners by Country of Guarantor: June 1977
(in millions of dollars)

Country	Total claims (by residence)	Claims guaranteed by residents of other countries: on banks	Claims guaranteed by residents of other countries: on others	Total claims less guaranteed claims	Claims on residents of other countries guaranteed by residents of this country: on banks	Claims on residents of other countries guaranteed by residents of this country: on others	Total claims by country of guarantor
Offshore Banking Centers							
Bahamas	5,905	5,279	41	585	34	6	625
Bahrain	565	439	-0-	126	4	45	175
Caymans	2,802	2,558	21	223	2	4	229
Hong Kong	1,286	361	293	632	91	256	979
Panama	1,896	533	404	959	5	54	1,018
Singapore	2,366	1,799	57	510	33	7	550
Liberia	1,889	-0-	1,167	722	-0-	63	785
Lebanon	125	17	41	67	2	13	82
	16,834	10,986	2,024	3,824	171	448	4,443
Miscellaneous							
Other Western Europe	222	68	41	113	71	105	289
Other Eastern Europe	1	-0-	-0-	1	-0-	3	4
Other Asia/Pacific	470	24	27	419	5	33	457
Other Middle East	191	10	-0-	181	8	0-	189
Other Africa	370	-0-	15	355	7	2	364
Other Caribbean	1,029	14	274	741	-0-	56	797
Other Latin America	1,160	37	23	1,100	29	20	1,149
Other North America	44	-0-	-0-	44	-0-	3	47
	3,487	153	380	2,954	120	222	3,296
Grand Total	164,208	24,707	8,478	131,023	12,783	6,234	150,040

Table III Contingent Cross-border and Non-local Currency Claims
by Country of Residence: June 1977 (in millions of dollars)

Country	Commitments under letters of credit to:		Other Commitments to:		Total Contingent Claims on:	
	Public borrowers	Banks and other private borrowers	Public borrowers	Banks and other private borrowers	Public borrowers	Banks and other private borrowers
G-10 and Switzerland						
Belgium/Luxembourg	-0-	113	22	594	22	707
France	41	222	676	1,808	717	2,030
Germany	9	183	54	1,754	63	1,937
Italy	12	489	174	119	186	608
Netherlands	-0-	146	1	776	1	922
Sweden	-0-	48	151	815	151	863
Switzerland	2	332	95	803	97	1,135
United Kingdom	22	783	275	2,968	297	3,751
Canada	-0-	177	49	282	49	459
Japan	1	306	38	2,385	39	2,691
	87	2,799	1,535	12,304	1,622	15,103
Non-G-10 Developed Countries						
Austria	-0-	16	103	168	103	184
Australia	-0-	441	131	381	131	822
Finland	35	42	305	154	340	196
Greece	112	252	174	518	286	770
Iceland	14	4	36	3	50	7
New Zealand	10	7	77	31	87	38
Norway	1	45	50	486	51	531
Portugal	16	9	2	35	18	44
Spain	37	140	84	895	121	1,035
South Africa	1	74	8	154	9	228
Turkey	79	81	10	52	89	133
Denmark	-0-	15	118	442	118	457
Ireland	50	17	68	102	118	119
	355	1,143	1,166	3,421	1,521	4,564
Eastern Europe						
Bulgaria	16	5	40	5	56	10
Czechoslovakia	2	-0-	6	10	8	10
East Germany	25	-0-	136	60	161	60
Hungary	-0-	3	94	29	94	32
Poland	58	29	145	20	203	49
Romania	8	-0-	139	2	147	2
U.S.S.R.	1	-0-	282	76	283	76
Yugoslavia	6	25	53	100	59	125
	116	62	895	302	1,011	364

Table III Contingent Cross-border and Non-local Currency Claims by Country of Residence: June 1977 (in millions of dollars)

Country	Commitments under letters of credit to: Public borrowers	Banks and other private borrowers	Other Commitments to: Public borrowers	Banks and other private borrowers	Total Contingent Claims on: Public borrowers	Banks and other private borrowers
Oil-Exporting Countries						
Algeria	91	44	95	25	186	69
Ecuador	72	102	89	71	161	173
Indonesia	14	62	149	229	163	291
Iran	99	64	93	322	192	386
Iraq	58	28	119	105	177	133
Kuwait	10	57	3	44	13	101
Libya	115	17	7	36	122	53
Nigeria	82	42	64	34	146	76
Qatar	8	34	27	6	35	40
Saudi Arabia	39	299	13	179	52	478
United Arab Emirates	38	85	76	87	114	172
Venezuela	193	245	251	787	444	1,032
	819	1,079	986	1,925	1,805	3,004
Non-Oil Exporting Developing Countries						
Latin America and Caribbean						
Argentina	81	99	139	330	220	429
Bolivia	22	28	47	97	69	125
Brazil	33	108	215	421	248	529
Chile	69	69	70	47	139	116
Costa Rica	14	15	10	13	24	28
Dominican Republic	43	56	30	133	73	189
El Salvador	5	14	5	16	10	30
Guatemala	6	4	39	141	45	145
Honduras	3	20	28	115	31	135
Jamaica	4	-0-	2	10	6	10
Mexico	101	100	228	698	329	798
Nicaragua	2	10	4	16	6	26
Paraguay	-0-	7	10	10	10	17
Peru	39	37	25	30	64	67
Trinidad & Tobago	19	2	43	3	62	5
Uruguay	19	11	43	12	62	23
	460	580	938	2,092	1,398	2,672

Table III Contingent Cross-border and Non-local Currency Claims
by Country of Residence: June 1977 (in millions of dollars)

Country	Commitments under letters of credit to:		Other Commitments to:		Total Contingent Claims on:	
	Public borrowers	Banks and other private borrowers	Public borrowers	Banks and other private borrowers	Public borrowers	Banks and other private borrowers
Non-Oil Exporting Developing Countries (continued)						
Asia						
China (Taiwan)	238	158	344	478	582	636
India	70	44	-0-	24	70	68
Israel	4	20	50	107	54	127
Jordan	42	8	19	23	61	31
Korea (South)	56	244	122	471	178	715
Malaysia	40	19	53	122	93	141
Pakistan	41	43	3	115	44	158
Philippines	76	135	545	288	621	423
Thailand	11	116	8	206	19	322
	578	787	1,144	1,834	1,722	2,621
Africa						
Egypt	131	160	47	100	178	260
Ghana	18	15	25	20	43	35
Ivory Coast	12	20	47	25	59	45
Morocco	58	28	61	-0-	119	28
Sudan	18	1	5	-0-	23	1
Tunisia	14	8	18	17	32	25
Zaire	10	2	8	4	18	6
Zambia	28	12	1	19	29	31
	289	246	212	185	501	431
	1,327	1,613	2,294	4,111	3,621	5,724

Table III Contingent Cross-border and Non-local Currency Claims by Country of Residence: June 1977 (in millions of dollars)

Country	Commitments under letters of credit to: Public borrowers	Commitments under letters of credit to: Banks and other private borrowers	Other Commitments to: Public borrowers	Other Commitments to: Banks and other private borrowers	Total Contingent Claims on: Public borrowers	Total Contingent Claims on: Banks and other private borrowers
Offshore Banking Centers						
Bahamas	1	22	6	144	7	166
Bahrain	-0-	3	27	114	27	117
Caymans	-0-	-0-	-0-	2	-0-	2
Hong Kong	1	157	114	315	115	472
Panama	4	155	50	136	54	291
Singapore	2	88	84	268	86	356
Liberia	8	42	1	202	9	244
Lebanon	-0-	49	62	413	62	462
	16	516	344	1,594	360	2,110
Miscellaneous						
Other Western Europe	8	15	-0-	11	8	26
Other Eastern Europe	-0-	-0-	-0-	-0-	-0-	-0-
Other Asia/Pacific	72	41	69	105	141	146
Other Middle East	97	44	56	47	153	91
Other Africa	110	20	19	66	129	86
Other Caribbean	11	70	18	173	29	243
Other Latin America	16	48	60	116	76	164
Other North America	-0-	9	-0-	61	-0-	70
	314	247	222	579	536	826
Grand Total	3,034	7,459	7,442	24,236	10,476	31,695

Comptroller of the Currency
Administrator of National Banks

Washington, D.C. 20219

May 26, 1978

Dear Mr. Chairman:

At the Banking Committee hearing yesterday morning, you raised the issue of diversification of risk in connection with the international lending activities of American banks. As I indicated, I have addressed this issue on two recent occasions. I am enclosing the full texts of my remarks.

The speech to the Association of Reserve City Bankers on "International Intermediation" calls for more careful self-regulation of bank management in the face of rapid changes in international banking and increased competition for loans. Management must be especially prudent when they interpret a century-old statute, such as the lending limit statute, to apply to the unforeseen banking realities of today. For this reason the Comptroller's Office published for comment an interpretation of 12 U.S.C. 84 requiring aggregation of foreign government agencies and instrumentalities for purposes of calculating the national bank lending limit. After reviewing a number of comments we received and evaluating the effectiveness of the Witteveen Facility, I observed in closing that the Comptroller's Office will be assuming an increasing role in the supervision of international lending practices.

My address before the Bankers Association for Foreign Trade on May 16, 1978, began with an historical perspective of U.S. banking entry into the international sphere. I then focused on the "10% rule" of 12 U.S.C. 84, examining major objections which have been raised. While diversification of risk is a doctrine conceptually correct and widely accepted, there is also a need for flexibility in applying the proposed standards. For example, specialization in a particular segment or geographical area of international lending may be in the best interests of some banks. The prudence of risk diversification should be tempered with the practical considerations of limited resources. I concluded with a call for anticipation of difficulities and preparedness to meet the new challenges of banking abroad.

I trust this material will be helpful to you and to the Committee.

Sincerely,

John G. Heimann
Comptroller of the Currency

The Honorable William Proxmire
Chairman, Committee on Banking,
Housing and Urban Affairs
Washington, D. C. 20510

Enclosures

REMARKS OF

JOHN G. HEIMANN

COMPTROLLER OF THE CURRENCY

BEFORE

THE BANKERS ASSOCIATION OF FOREIGN TRADE

56TH ANNUAL CONFERENCE

THE HOMESTEAD

HOT SPRINGS, VIRGINIA

MAY 16, 1978

Both your organization and the one I represent have changed dramatically since their formation. Most obvious are the anachronistic inaccuracies of name. The Comptroller of the Currency no longer has a "currency" function. And the members of the Bank Association for Foreign Trade no longer have the financing of U.S. imports and exports as their principal international activity. Far more important, however, are the substantive changes that account for these misnomers. Perhaps most striking is the experience we have shared in expanding our involvement in the international sphere.

I have been associated with the banking business, in one way or another, long enough to remember quite vividly the typical U.S. bank international department, as it remained into the 1960's. In those days, it was traditional to regard international banking activities as a special game preserve of sorts, and often the departmental personnel served behind glass walls, or other institutional arrangements emphasizing their peculiarity within the bank. The titles of their principal officials generally signified remoteness from the levers of command, and there were few chief executive officers, even at the largest U.S. banks, who saw in international banking a potentially major profit center, to say nothing of a decisive one.

No, international banking was conceived as a service function for domestic clients, i.e., self-liquidating trade transactions. The principal financing vehicles were letters of credit and acceptances. Foreign exchange activity was limited largely to spot transactions to effect payment under collection items; forward contracts were minimal.

That a U.S. bank would ever have a significant "exposure" in a foreign currency vis-a-vis the dollar would have struck top management as a dangerous heresy. It was certainly, in a regulatory sense, a halcyon era.

All this began to change, we recall, in the early 1960's, especially with the first faint stirrings of the eurodollar market. And one of my predecessors in office saw this as a fundamental supervisory challenge. How could an incumbent Comptroller effectively supervise more than 4,700 national banks without jurisdiction over their international, as well as domesitc, activities? It was a good question.

In 1962 Comptroller James J. Saxon undertook to assume supervisory authority over the activities of foreign branches of national banks -- historically the statutory domain of the Federal Reserve Board.

It came to a confrontation of the kind that is always regrettable among supervisory agencies. Chairman William McChesney Martin of the Federal Reserve Board informed then Secretary of the Treasury Douglas Dillon that the infant eurodollar market posed problems of monetary policy, not bank safety, and, accordingly, jurisdiction should remain solely with the Fed. Over the objection of Mr. Saxon that "grant and regulation of foreign branches of national banks is clearly a function of bank supervision -- not a monetary function", the Board of Governors prevailed on this point -- and for more than a decade exercised predominant jurisdiction.

Of course, the regulatory question was posed differently in those days. Money rates favored London as a source of funds. Therefore, at the outset, fore, U.S. banks sought to acquire eurodollars chiefly for domestic relending, creating a net increase in the domestic money supply. This inflow of funds could properly be categorized as a problem of monetary regulation. Moreover, the total eurodollar takings were still small enough, relative to the size of the banks participating in this new market, to present no significant concern over bank supervision. In fact, a number of leading bankers remained skeptical about the potential of the eurodollar market itself -- to say nothing of a possible eurocurrency market -- until the late 1960's. It was in this environment that Chairman Martin and the Fed undertook to expand U.S. banking activity overseas.

Some have said that top managements of many major U.S. banks -- especially the regional banks -- were at that time a bit reluctant to undertake significant international initiatives. To do this required devoting a good deal of time and resources in an effort to rethink priorities and acquire familiarity with foreign legal systems and regulatory practices -- all in an era when the overwhelming preponderance of bank profits were derived from domestic activities. There were also some problems of cultural lag -- you know the old saying about the reason for the dominance of English in international business, "The British won't learn foreign languages -- and the Americans can't."

At any rate, to strategists at the Fed, it appeared clear that American banks needed some external motivation to take advantage of the growing opportunities in offshore banking. The firm ceiling imposed under the Voluntary Foreign Credit Restraint Program ("VCR") on foreign loans made through domestic offices provided the appropriate encouragement, and was largely responsible for the early expansion of overseas banking facilities.

Admittedly, a decade ago nobody would have had the temerity to predict that international lending activities of ten or more of the largest banks in the country would eventually account not only for more than half of their loan portfolios, but also the lion's share of their profits. Among the more significant tabular compilations setting forth these extraordinary trends, I prefer the Salomon Brothers table showing comparative growth rates for earnings, 1972-1977, for international and domestic activities of our 10 biggest commercial banks. I will not bombard you with figures, but among the most impressive trends is the increase in foreign earnings of institutions that were previously regarded as inherently regional institutions -- outside the money market centers and without extensive foreign branch or affiliate networks. The fact is, our commercial banking system is now firmly locked into a global banking system -- a system dominated by very large foreign institutions, many of them government-backed or owned, which compete for business by means and standards not always in accordance with traditional American banking practices. It is a trend that has brought the Comptroller's Office new and heavy responsibilities in the field of international bank supervision. Thus, time has vindicated Mr. Saxon's original judgment, and doubts about the appropriateness of such jurisdiction have long since vanished.

Inevitably, these developments also have necessitated substantial administrative changes within the Comptroller's Office. For instance, within the past 12 months, we have dispatched more than 200 examiners to review bank operations outside the U.S., compared to less than 55 examiners in 1968. Our statistical publications now focus sharply on foreign lending. In addition, the Office is now collaborating directly with foreign bank supervisors. The Comptroller has become a member of the Group of Ten Committee on Bank Regulation and Supervisory Practices, or as it is more conveniently termed -- The "Cooke Committee."

But I suppose this audience is less concerned with the historical prospective, and would prefer to hear something about the "10% rule." I am speaking, of course, about the proposed interpretation of 12 U.S.C. Section 84, which has provoked so much discussion within the international banking community.

I wish to make clear at the outset that I am basically no friend of lengthy interpretative rules as such. I don't like to fill the Federal Register with columns of exhaustive and exhausting regulatory language in fine print. And I was aware when we issued the proposed interpretation for public comment, that the definitional questions surrounding what has come to be known as the "disaggregation issue" would not be easy to resolve. That is one reason why the interpretative ruling has remained in a proposed form. Another reason, of course, is the need to do justice to the thoughtful correspondence received from banks, including some, I am sure, from persons in this audience.

As you know, the Comptroller's Office has, in general, applied both a "means" and a "purpose" test to foreign government-related borrowers of national banks, for them to qualify as "single" entities entitled to borrow up to 10% of the bank's capital and surplus. The proposed ruling formalizes this approach and addresses a number of conceptual questions associated with it. Many objections to the proposed ruling center upon the contention that national banks may be placed at a competitive disadvantage with foreign banks, as well as domestic banks, not upon its limitations. I understand the force of this contention but do not accept its underlying premise as gospel truth. One of the most notable characteristics of lending today is the global availability of credit, and the fierce competition for the business of borrowers of less than prime standing. Competition of this type is by no means self-justifying. Obviously, some flexibility is desirable in the application of these standards, and in our proposal we have undertaken to write rules that will be specific enough to achieve the fundamental supervisory objective, without being too rigid to bend as and when needed.

But a broader purpose underlies the proposal. We are attempting to clarify, conceptually, the nature of the risks involved. This necessarily includes the establishment of the best possible internal financial control and reporting mechanisms relating to lending activities. I want to emphasize that the resolution of definitional questions is of benefit to both the supervisor and the bank. That clarity is often best achieved trough open debate is well known. The French have a saying: "The truth gushes forth when opinions collide."

In relative terms, only in recent years have we embarked on an earnest quest for greater supervisory effectiveness in the international banking arena. The question of disaggregation is merely one small element of a far wider and deeper supervisory challenge. The problems, conceptual and definitional, posed by cross-border risk assessment are formidable, as are those associated with the imposition of standards of risk diversification. In addition to "country risk", there are commodity risks, industry risks, geographic risks -- even geological risks.

Diversification of risk, I believe, is a doctrine to which we can all subscribe. In large part is provides the conceptual foundation of the "10% rule" itself. The concept of diversification is correct.

Having agreed in principle that diversification is a sound banking practice, we must come to grips with its practical application. The Congress has imposed a 10% limit, which by necessity must be somewhat arbitrary. The corrections of the 10% may be argued. For instance, New York State has had a 25% limit. Overall, I do not know whether]0% is too little or 25% is too large of a unit. Some might argue 25% may be too little. I do not believe the percentage amount is as critical as the principle behind the attempt to establish a definitive percentage. I think our Office can most productively approach the principle of diversification within the constraints of the 10% legal limit through flexibility in interpretation of the ruling.

Diversification of risk is clearly desirable for international as well as domestic banking activities. But, unfortunately, there is a difficult trade-off implicit in its blanket imposition. After all, it is evident that many banks seek, justifiably, to specialize in certain segments or geographical areas of international lending. Such specialization builds valuable expertise in the form of close familiarity with local conditions, and other advantages contributing to sensible lending decisions. Under these circumstances, it may not be advisable to compel diversification of risk arbitrarily by means of rigid rules. Regional banks, in particular, do not have the global access to international lending enjoyed by the major banks and, thus, do not have as extensive a capacity to diversify risks.

In applying the concept of statutory or regulatory lending limits 12 U.S.C. 84 to overseas lending, particularly foreign public sector lending, the prudence of risk diversification should be tempered with the practical considerations of limited resources. In this regard, co-financings with official institutions may be one means through which banks, borrowers, and supervisors could be accommodated. As you know, the Federal Reserve recognized a lesser risk in co-financings by exempting these loans from the lending limits of Regulation K. The Federal Reserve promulgated this exemption because of the chaperone effect associated with participations by official institutions. It may well be appropriate to consider extending this chaperone concept to national banks.

I am also aware that our Office cannot easily and unthinkingly apply conceptual devices, tested by long domestic regulatory tradition, to international lending activities. We have to develop new ones.

This is a task that cannot be achieved by closeting ourselves in a conference room around a green table and drafting a set of regulations. No, it has to be done together with the lenders -- and again, for mutual benefit. The need for sophisticated risk assessment in international lending is commonly understood, but mere recognition of the problem is of little comfort. As usual, the devil hides in the details.

For bank supervisors too, the task is not only to design, but to also divine. It has been said, I know, that prophecy is the most gratuitous form of error. But like it or not, bank supervisors, especially when confronted by the current challenges posed by international banking, are in the business of anticipating future developments. As we saw, in the 1960's the Fed successfully fostered the evolution of U.S. overseas banking. However, we are now faced by what may be a more difficult task. The uncertainties are of a different order, involving as they do a broader spectrum of political events, not subject to U.S. governmental control or modification. Matters are further complicated by the unfortunate circumstance that our confidence of a decade ago in our ability to guide the course of world economic events has been severly shaken.

Perhaps, I should hazard a military analogy, fitting enough for this lovely location. Do you remember the story of "Fighting Joe" Hooker -- the general appointed to command the Army of the Potomac in the Spring of 1863? He was the one, you may recall, who once cabled the War Department "My headquarters are in the saddle" -- which prompted Lincoln to comment: "His headquarters are where his hindquarters ought to be." Anyway, Hooker lost track of Lee's Army, and, at Chancellorsville, became the victim of Stonewall Jackson's famous 15-mile flanking march. Hooker had received belated intelligence of the ensuing attack when a Confederate cannon ball shot away the pillar against which he was leaning in the house he had chosen as headquarters. It was not a particularly good supervisory performance.

Today's bank supervisors cannot afford to be caught off their guard like "Fighting Joe." They must continue to expand their international expertise, improving their ability to foresee new trends and strengthening their capacity to meet the new challenges of banking abroad. This they must do with the cooperation and participation of the industry. For in the final analysis, the scope of governmental involvement will always depend upon the prudence and self-discipline exercised by the banks themselves.

INTERNATIONAL INTERMEDIATION

A PERSPECTIVE

(By John G. Heimann, Comptroller of the Currency, April 3, 1978)

Last August Sir Jeremy Morse, the Distinguished Chairman of Lloyd's Bank said: "Self regulation, in banking, is one of the cornerstones of free enterprise; it should be regarded as a basis, to be supplemented by official supervision, rather than an outworn tradition—to be supplanted by it."

Those words of Chairman Morse are most appropriate in light of current developments in international banking which I believe warrant the attention of both bankers and bank supervisors. Some international lending practices as well as certain components of the international intermediary structure need careful scrutiny. Where necessary, these practices should be strengthened in order to limit private bank risks and to assure a safe and flexible international banking system.

The participation of American banks in this global system of intermediation has increased dramatically as banks have recycled surplus petro dollars. This increased American involvement has yielded substantial benefits and produced the potential of possible pitfalls.

One of the major benefits has been dramatically increased earnings. Between 1971 and 1976, profits from international activities of the 10 largest U.S. banks increased 358%, while earnings from domestic operations increased only 5%. It is important to note, however, that international earnings growth for this group slowed dramatically between 1975 and 1976 to only 1.7%.

Other benefits include expanded and diversified international services for bank customers and the efficient recycling of enormous funds from a small number of surplus countries to a wide group of deficit countries. Notwithstanding these benefits, sources of potential risk must be recognized:

- Narrowing spreads: The difference between the costs banks pay for funds and the interest return for those funds is narrowing. Currently a rate of ⅝%–¾% over Libor (London Interbank official rate) is prevalent and front end fees have diminished. Do these rates reflect an adequate return on investment for the assumed risk?
- Lengthening Maturities of up to ten years: Can lenders realistically expect to evaluate the increased risks possibly resulting from the economic, political, and social uncertainties in such extended maturities.
- Mismatching of Maturities: To what degree are lenders accepting additional risk and additional exposure by borrowing short term and lending long term? If there is additional risk, and there must be, how do banks find adequate compensation in a period of narrowing spreads?
- Compressing of the differential between prime and non prime borrowers: Does the narrowing spreads on loans of varying risk, accurately reflect this variance?

On a broader but less specific basis, other potential problems might include the increased market access by non-traditional borrowers. Of course, new borrowers, who have yet to establish a repayment record, will continually be emerging. But this poses an additional problem. Are the rates given to new borrowers properly reflective of the risk?

Another possible problem is the continuing reliance by sovereign nations on commercial banks for development and balance of payments financing. This phenomenon is reflected, in part, by the doubling of the outside debt of the third world countries since 1973. Do the rates charged by lenders accurately reflect the risk involved in this area of lending, previously the domain of multilateral institutions?

These sources of potential problems, in part, are a reflection of increased competition. Many multinational banks are very liquid and highly aggressive. The OPEC countries are slowly increasing their use of multilateral facilities and

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direct lending. Multinational banks are committed, to continue their foreign operations. Other banks are just now entering the international arena. As international activity expands and the participants in international capital markets grow more sophisticated, the inescapable conclusion is that competition will only increase.

Given the rapid metamorphosis of international banking, it is incumbent upon banks and bank supervisors to develop technology and train staff to cope with this evolution. Any lag between the development of international markets and the development of complimentary internal expertise by bank and supervisors increases risk.

During this period banks can and should exercise the self discipline which will lead to a safer and more functional international banking atmosphere. For if the banks do not introduce discipline, the supervisor must. It is much better for the primary participants, the bankers, to take the initiative.

I recognize that current earnings pressures may lead a bank to meet the heavy foreign demand for long-term loans, though I compliment certain U.S. banks which have resisted these pressures. Nevertheless, there is a limit to private banks providing long-term financial assistance to their foreign clients, especially to foreign public sectors. Prime borrowers are limited.

Despite the vagaries of global commodity markets many loan repayments have been, and are, predicated upon a borrower's exports of a commodity at a certain price level. Commodity price exposure also should be limited. Furthermore, the risk of commodity price fluctuations is only exacerbated by lengthening maturities. In addition, lenders should be cautious not to place themselves in the untenable position of loan repayment being predicated upon future national trade policies.

Another protection against some of the uncertainty in international lending is multilateral institutions. These must be understood and used properly if we are to foster stability in international finance. Banks should be cautious of the unilateral loan which falls outside the parameters established by multilateral agreements. Without the protection of these agreements, banks are exposed to additional risk. The rising threat of protectionism may be diminished by increased participation in multilateral facilities.

In other areas of international lending there are established laws to which banks must adhere and which supervisors must enforce. However, even in these areas, initiative by the banks can allow some self-determination of the legal framework and discipline for the future. For example, the Office of the Comptroller recently published for comment an interpretation of 12 U.S.C. 84.

This law, written over a century ago, dictates that no bank may lend more than 10% of its capital and surplus to a "single borrower." Understandably, the founders of this law could not have foreseen the difficulties to be created a century later when the definition of "single borrowers" would not only include individuals, but would be expanded to include countries. The resulting problem is whether or not the various government agencies and instrumentalities should be aggregated before applying the 10% limitation.

It remains for all of us to interpret this law in the light of today's realities. The Office of the Comptroller published this proposed ruling to act as a catalyst for essential thought and discussion. Our ruling proposed applicable principles and demands supportive documentation for loans to foreign entities. Thus far we have received 80 substantive comments on our ruling. The banks which responded accepted the challenge of self-initiative and played a role in determining the future discipline under which they must conduct business.

Here are some of their comments:

- The ruling would be counterproductive if loans guaranteed by a central government were aggregated with loans to that central government and resulted in discouraging the use of such guarantees.
- The Comptroller's Office should provide a list of those government agencies, or instrumentalities which would be exempt from aggregation. In essence, the request is for an advance screening mechanism to eliminate uncertainty about which borrowers would be aggregated.
- The Comptroller's Office should consider that a conservative application of the 10 percent limitation might place U.S. banks at a competitive disadvantage vis-a-vis non U.S. banks. Furthermore, a conservative approach may limit large creditworthy foreign public sector borrowers from overall access to credit from the capital markets.

• National banks should not be at a competitive disadvantage unless state banks were subject to similar standards. As you know, each state sets its own lending limitations. For instance, New York State has a 25 percent limitation to "any nation."

Other respondents were concerned with raising the 10 percent lending limit; whether the ruling would apply retroactively; and the consequences of a change in the purpose of the loan after it had been granted.

This list is, of course, not exhaustive and includes both ideas under discussion within our Office and some new thoughts. It does demonstrate the need for communication between the regulator and the industry if we are to succeed in solving future problems of foreign sector lending.

On the immediate horizon our office has several concerns which are worth mentioning today. First, the syndication process places an extraordinary responsibility on the lead bank. Nevertheless, the Comptroller's Office views as the fiduciary responsibility of each participant within a syndication the satisfactory judgment as to the worthiness of the credit. Sole reliance upon the lead bank's analysis of creditworthiness or risk is not acceptable.

Second, many banks have developed large foreign exchange and trading activities. The volume in this area of activity has increased dramatically over the past 12 months. We are taking an increasingly hard look at these activities relative to the size and sophistication of the institution.

Third, there are concerns about the many loans which U.S. banks have made with agreements adjudicable under foreign laws. Legal disputes between private commercial banks and sovereign nations inherently are complicated. These complications are exacerbated by the lack of precedent in the laws of certain countries.

Over the long term, we see global interdependence increasing, politically, economically, and financially. This world-wide interrelated financial system will be less able to isolate local occurrences. Containment will become increasingly difficult and, perforce, social, economic and financial problems will have a ripple effect far greater than those experienced thus far. This reality necessitates a far more sophisticated and comprehensive awareness of the borrowers' social, political, and legal composition and trends.

Also, it would seem ill advised if commercial banks, due to competition, were in a position to thwart the role of official multilateral institutions in assisting a developing country's economy. Banks and the multilateral institutions, with their diverse purposes, powers, and goals, should not be placed in direct competition in providing a country's financial needs. Cooperation will be more productive and protective.

On a lesser scale, though also important, we view with some concern countries which appear to be financing balance of payments needs through increased use of money market instruments. Loans which do not assist a country in reaching a desired level of export earnings or import substitution also warrant attention.

Many of these concerns stem from a structural problem in our present system for intermediating the global money supply. During most of the post war period the multilateral institutions filled the need for long term money and balance of payments financing. These institutions were provided powers which, in part, compensated for the increased risk inherent in such lending. Today, commercial banks in some instances have assumed the traditional role of these multilateral institutions. This is the result of increased demand for such financing, beyond the financing capability of the multilateral institutions.

Consequently, we see the Witteveen Facility as a necessary expansion of IMF capacity; but it is not a panacea for all future deficits. Even if world recovery continues and international trade expands at respectable rates, many countries will have current balance of payments deficits or will need financing for long term projects in the years to come. Certainly enlarged funding and commitment limits for official institutions would provide more traditional assistance to deficit nations. But is the expansion of existing mechanisms enough. If the answer is no, then we must consider new mechanisms to provide orderly intermediations of the market demands of the future. One example is the development of variable rate Eurobonds.

The Office of the Comptroller has been taking an increased role in the international area. For instance, in the past seven months we have had over 200 examiners reviewing banks' operations outside our borders. Three months ago we published jointly with the Federal Reserve Board the most detailed information ever released concerning foreign loans of U.S. banks.

We received for comment the proposed interpretation of 12 U.S.C. 84 which I discussed previously. Last month, we became members of the Group of Ten Committee on Bank Regulation and Supervisory Practices, known as the Cooke Committee. Also, I recently visited with Swiss and English bankers and supervisors to share information and discuss solutions concerning common problems.

As we increase our supervisory role in the international area, we ask the banks to do the same. This does not mean a curtailment of the innovativeness displayed by the U.S. commercial banks in the foreign sector over the last few years. However, it does mean a stronger monitoring to preserve the viability of the system to meet the challenges ahead. As a promoter of a strong international financial system, the Comptroller's Office will continue to increase its role in this area. The extent of that role, and the degree to which all regulatory authorities interface with the private financial markets depends on the scope of private bank self-discipline and self-determination towards safe and sound lending operations and market structure.

To reach the mutually desirable goal, that is a financial system which is not only viable, but has stability; the risks inherent in international banking activities must be tempered by the supervisor's Congressional mandate to maintain a safe and sound banking system. I am suggesting to you that my Office can best do this with your cooperation and participation.

DEPARTMENT OF THE TREASURY

COMPTROLLER OF THE CURRENCY

[12 CFR Part 7]

LOANS TO FOREIGN GOVERNMENTS, THEIR AGENCIES, AND INSTRUMENTALITIES

Notice of Proposed Rulemaking

AGENCY: Comptroller of the Currency.

ACTION: Proposed rule.

SUMMARY: The proposed interpretive ruling summarizes principles which the Comptroller of the Currency believes applicable to the combining of loans made by national banks to foreign governments, their agencies and instrumentalities under the lending limit provision of 12 U.S.C. §84. A new interpretive ruling is necessary because existing interpretive rulings applying the combining principles of 12 U.S.C. §84 do not directly address such loans.

DATES: Written comments must be received on or before _________ (60 days from publication in the Federal Register).

ADDRESSES: Comments should be addressed to Mr. John E. Shockey, Chief Counsel, Comptroller of the Currency, Washington, D. C., 20219.

FOR FURTHER INFORMATION CONTACT:

Mr. Larry Mallinger, Staff Attorney
Office of the Comptroller of the Currency
Washington, D. C. 20219
(202) 447-1880.

SUPPLEMENTARY INFORMATION: In recent years there has been rapid growth in lending by commercial banks to foreign governments, their agencies, and instrumentalities. This growth has required national bank examiners to give increasing attention to the applicability of the statutory lending limits of 12 U.S.C. §84 to such credits. In this process, specific questions have been raised as to how such loans should be combined for purposes of applying the lending limits.

The present series of formal interpretive rulings applicable to the combining of loans under 12 U.S.C. §84 (12 CFR 7.1310 -- 7.1320) do not specifically address the types of inquiries which should be made in the case of credits related in one way or another to a foreign government. However, for some time the Comptroller's staff has advised banks making specific inquiries of two general principles. First, that foreign governments and government related entities are regarded as "persons" under the language of 12 U.S.C. §84. Second, that loans to foreign government-related entities that have a significant degree of independence from the central government in their sources and uses of funds will not be combined with loans to the central government so long as such entities satisfactorily evidence means of repayment that are not substantially dependent upon general revenues of the central government. Implicit in these individual rulings has been the understanding that the borrowing by an individual entity is for the purpose of satisfying funding needs related to its own activities. This second principle has been expressed in staff opinions issued over the past several years in terms of the "means" and "purpose" tests.

Because of the increased number of circumstances in which examiners and bank officers must take the lending limits into account in reviewing loans to foreign governments and their instrumentalities, the Comptroller proposes to state the applicable principles and minimum documentation requirements in an interpretive ruling.

The proposed ruling addresses the following items.

First, loans to foreign governments, their agencies and instrumentalities will be combined under 12 U.S.C. §84 if they fail to meet either the "means" or "purpose" test.

Second, these tests will apply to all existing and new loans at the time each new loan is made.

Third, the borrower is required to provide a statement describing with particularity the purpose of the loan. Normally this will be sufficient to satisfy the requirements of the "purpose" test. However, the ruling makes it clear that when a bank has available to it other information suggesting a use of proceeds inconsistent with the borrower's representation, it may not, without further inquiry, accept the representation.

Fourth, certain additional documentation is required to enable the bank to carry out its responsibility of reasonable investigation and to satisfy examiner inquiry under the "means" and "purpose" tests. In part, because of the threshold need to identify properly the real borrower, the additional documentation includes a statement describing the borrowing entity's legal status and relationship to the central government. Also required are financial statements for the borrowing entity for each of the three years prior to the making of the loan (or for each year less than three that the borrower has been in existence) and for each year the loan is outstanding, and analytical opinions by management supporting their assessment of the borrowing entity's ability to service the loans.

In a number of other areas, the proposed interpretive ruling does not attempt to establish firm boundaries because the differences in function and operation of various foreign governments and their related entities cannot be so inflexibly addressed. For example, the documentation required under the proposed ruling suggests that the presence or absence of central government support for the borrowing entity is a relevant inquiry. Some central government support whether direct or in the form of a guarantee would not, without more, require combining. However, where such support approaches a relatively large percentage or a principal portion of the borrowing entity's annual revenues, such as 50 percent, or where but for the presence of a governmental guarantee the bank would not consider the borrower to have sufficient credit standing, a presumption of lack of independent means may arise.

The proposed interpretive ruling does not supplant current interpretive rulings (12 CFR 7.1310 -- 7.1320) applicable to the combining of loans to partnerships, corporations and their subsidiaries, and certain other common enterprises. Thus, 12 CFR 7.1310 remains applicable to loans to foreign entities organized as corporations whether or not they are related in some way to the central government.

While the proposed interpretive ruling states the inquiries which the Comptroller's Office for sometime has believed appropriate in applying 12 U.S.C. §84 to loans to foreign governments and their related entities, the specific terminology used in the ruling may be unfamiliar to some banks. In this connection, it should be clearly understood that the principles expressed in the ruling will not be applied by the Comptroller's Office to reverse prior examiner determinations on particular bank loan portfolios. However, because the principles expressed in the ruling are directly related to existing statutory requirements, these principles should be carefully considered in connection with any new loans made by national banks to foreign governments and their related entities during the comment period.

The Administrative Procedure Act does not require notice and solicitation of comments in connection with interpretive rules (5 U.S.C. 553(b)). However, the Comptroller has elected to afford opportunity to comment on the proposed amendment.

PROPOSED RULING

For the reasons stated above, the Comptroller proposes to amend 12 CFR Part 7 by adding a new section 7.1330 to read as follows:

§7.1330 Loans to foreign governments, their agencies, and instrumentalities

(a) Loans to foreign governments, their agencies, and instrumentalities will be combined under 12 U.S.C. §84 if they fail to meet either of the following tests:

(1) The borrowing entity must have resources or income of its own sufficient over time to service its debt obligations ("means" test);

(2) The loan proceeds must be used by the borrowing entity in the conduct of its business and for the purpose represented in the loan agreement or otherwise acknowledged in writing by the borrowing entity ("purpose" test). This does not preclude converting the loan proceeds into local currency prior to use by the borrowing entity.

These tests will be applied at the time each loan is made.

(b) In order to show that the "means" and "purpose" tests have been satisfied, a bank shall, at a minimum, assemble and retain in its files the following items:

(1) A statement and supporting documentation describing the legal status of the borrowing entity and showing its ownership and any form of control that may be exercised directly or indirectly by the central government.

(2) Financial statements for the borrowing entity for a minimum of three years prior to making

the loan or for each year less than three that the borrowing entity has been in existence.

(3) Financial statements for each year the loan is outstanding.

(4) The bank's assessment of the borrower's means of servicing the loan including specific reasons justifying that assessment. Such assessments shall include an analysis of the financial history of the borrower, the present and projected economic and financial performance of the borrower, and the significance or lack of significance of any guarantees or other financial support by third parties, including the central government.

(5) A written statement from the borrower describing with particularity the purpose of the loan. Normally, such a statement will be regarded as sufficient evidence to meet the "purpose" test requirements. However, when the bank knows or has reason to know of other information suggesting a use of proceeds inconsistent with the representation in the statement, it may not, without further inquiry, accept that representation.

John G. Heimann
Comptroller of the Currency

Dated:

Comptroller of the Currency
Administrator of National Banks

Washington, D. C. 20219

March 1, 1978

The Honorable William Proxmire
Chairman
Committee on Banking, Housing and
Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

The attached information is furnished in response to your letter of December 15, 1977 in which you requested certain statistical data in preparation for the hearings before the Committee on Banking, Housing and Urban Affairs scheduled for April 3 and 4, 1978.

Agreement on modification of certain of your original requests was reached in consultation with Mr. Lindy Marinaccio, Special Counsel to the Committee. We have included a glossary of terms with definitions for use with several of the statistical tables and narrative responses. Where relevant and helpful, documents are appended to tables or narratives which more fully explain procedures, practices, or substantive matters related to your questions.

Responses to your requests are attached in the order of the requests. Refer to the Table of Contents for respective page numbers.

Sincerely,

John G. Heimann
Comptroller of the Currency

Attachments

GLOSSARY

I. GENERAL INFORMATION

Data provided on the universe of banks (all national banks) is displayed in the following peer groups:

$0 to $100 million
$100 million to $500 million
$500 million to $1 billion
$1 billion to $5 billion
Over $5 billion

Data provided on National Banks Requiring Special Supervisory Attention is displayed in the following peer groups:

$0 to $100 million
$100 million to $1 billion
Over $1 billion

Data derived from Reports of Examination is from the latest report available at the year end for each year indicated.

National Banks Requiring Special Supervisory Attention are defined as banks with a composite group rating of 5, 4, or 3. A detailed description of each category is provided in Response #1.

II. SELECTED REPORT OF CONDITION DATA

Total Assets:

Line 16 of Consolidated Report of Condition.

Total Deposits:

Line 24 of Consolidated Report of Condition.

III. CATEGORIES OF CLASSIFIED ASSETS AND OTHER LOANS ESPECIALLY MENTIONED

Applicable to Tables 4A, 4B, 4C and 4D and Response #1.

Substandard:

Assets so classified must have a positive and well-defined weakness or weaknesses which jeopardize the liquidation of the debt. Defined in a general way, a substandard asset is a bank asset inadequately protected by the current sound worth and paying capacity of the obligor, or pledged collateral, if any.

Doubtful:

Assets subject to this classification have all of the weaknesses inherent in assets classified substandard with the added proviso that the weaknesses are pronounced to a point where collection or liquidation in full, on the basis of currently existing facts, conditions and values, is highly questionable and improbable. The probability of total or substantial loss is high but extraneous factors might make possible the strengthening or liquidation of the asset.

Loss:

Assets classified as loss are considered uncollectable and of such little value that their continuance as active assets of the bank is not warranted. Assignment of this classification does not mean that an asset has absolutely no recovery or salvage value, but simply that it is not practical or desirable to defer writing off a basically worthless asset even though partial recovery may be effected in the future.

Total Classified Assets:

The sum of substandard, doubtful and loss classifications.

Other Assets Especially Mentioned (OAEM):

Currently protected but potentially weak credits or other assets.

IV. GROSS CAPITAL FUNDS

Applicable to Tables 4A, 4B, 4C and 4D, and Response #1.

The sum of capital stock, surplus, undivided profits, reserves for loan and security losses and long term subordinated notes and debentures.

V. ADJUSTED CAPITAL FUNDS

Applicable to Response #1.

Gross Capital Funds as described above less 50% of the amount classified doubtful and 100% of the amount classified loss.

Response to Request #1

EVOLUTION OF THE COMPTROLLER OF THE CURRENCY'S RATING SYSTEM

Various methods of identifying and classifying banks that require special supervisory attention have been employed by the Office of the Comptroller of the Currency. Improved procedures in the identification process in the last few years have mandated changes in the classification process. The following summary of the evolution of the Office of the Comptroller of the Currency's rating system is in response to your inquiry, although it may repeat information previously furnished.

Unitl 1977, the Office of the Comptroller of the Currency used a bank rating system devised prior to 1950. These ratings were assigned to the banks by the regional administrator. A copy of the general guidelines used in this system is enclosed as Attachment A. Its major screening device was the quality of assets as determined by the ratio of Total Classified Assets to Gross Capital Funds. If this ratio were less than 20%, an asset rating of "A" was assigned; if between 20% and 40%, this rating was "B"; if between 40% and 80%, this rating was "C"; and if over 80%, this rating was "D". This rating was automatically assigned regardless of the severity of the classifications. In addition to the asset quality rating, subjective ratings of the bank's capital position and management were made.

A composite rating was then assigned based primarily on the bank's asset quality rating, although the bank's capital position and quality of management were also considered. These composite ratings are the Group Ratings 1, 2, 3, and 4 that have been discussed before the Committee. These composite ratings are defined in Attachment A.

In January, 1974, weekly meetings were established in the Washington office to discuss bank-by-bank the problems the staff had identified. These meetings revealed some of the weaknesses in our method of identifying and tracking banks requiring special supervisory attention.

On November 15, 1974, the Office of the Comptroller of the Currency established the Victor Program as a better means of coordinating the various skills and resources that we have in the problem identification and correction area and applying them more expeditiously and precisely than previous procedures have allowed. The goal of this program was to correct the causes of asset, liability, earnings and management situations detrimental to the national banking system. The Victor Program improved communications among the examiner, the regional office and the Washington office and emphasized the need for a timely response to problems identified during examination.

Initially, the Victor Program included all banks with a composite rating of 3 and 4 and any other banks which the examiner, regional administrator, or Washington personnel believed to merit the specialized attention which the program was designed to provide. It was soon apparent that not all banks with a composite rating of 3 or 4 required the intensive supervision of the Victor Program. Therefore, on December 31, 1974, the criteria for inclusion in the Victor Program were modified. New instructions required examiners to alert the regional and Washington offices when a bank's remaining criticized assets (50% of Other Assets Especially Mentioned, 100% of Substandard, and 50% of Doubtful) were 65% or more of Adjusted Capital Funds or when any condition existed which could lead to the bank's insolvency. It was emphasized that while some statistics and ratios were necessary, the office was dependent upon the examiners' professional ability and judgment, not ratios, to disclose those serious banking matters requiring attention. With the implementation of the modified Victor Program, the old rating system diminished in importance and was no longer used by the Washington Office.

In September, 1975, the Office of the Comptroller of the Currency underwent a major reorganization. The use of the name "Victor" was discontinued, but the operation of this surveillance group continued. It has evolved into what is presently known as the Special Projects Division.

Although banks continued to be rated under the old rating system by the regional administrators, the Special Projects Division developed its own classification system for categorizing banks included in the program. This system relied primarily on professional ability and judgment, not ratios, to classify those banks requiring special supervisory attention. Since this rating was assigned in Washington, it eliminated any disparity in rating that might have existed between regions. The five categories of that rating system were Pass, Pass-Monitor, Close Supervision, Serious, and Critical. A detailed definition of these categories is supplied as Attachment B.

On August 12, 1977, the Office of the Comptroller of the Currency modified the rating system to include all national banks rather than only those banks requiring special supervisory attention. Under the new system the examiner rates asset quality, earnings, capital adequacy, liquidity, ownership, internal controls, audit and credit review programs, and external conditions. Taking the examiner's ratings into account together with any other significant factors affecting a bank, the regional administrator assigns a composite rating. These composite ratings are consistent with the ratings previously used by the Special Projects Division. Examining Circular 159, Attachment C, describes the new rating system.

Examining Circular 160 (see Attachment D) detailed procedures to be followed on all banks requiring special supervisory attention. To insure consistency among regions, any 3, 4, or 5 rating assigned by the Region must be concurred with by the Special Projects Division. Examining Circular 160 established procedures for this and for changing a bank's rating between examinations.

Examining Circular 161 (see Attachment E) modified the procedures to be followed on all banks included in the Special Projects Program. The Special Projects Program now includes:

a. All banks with a composite rating of 3, 4, or 5;

b. All banks operating under a formal administrative action taken pursuant to the Financial Institutions Supervisory Act of 1966;

c. All banks with assets exceeding $2 billion regardless of condition (due to their importance to the national banking system and the nation's economy); and

d. Other banks with inherent or suspected problems or potential problems.

Representatives of the Federal Deposit Insurance Corporation, the Federal Reserve System, and the Office of the Comptroller of the Currency have been meeting to discuss a uniform interagency rating system. A system compatible with the Office of the Comptroller of the Currency's was tentatively agreed upon and is being tested by the Federal Deposit Insurance Corporation and the Federal Reserve System. This system or a slight variation should be fully adopted and implemented by all three agencies by the end of 1978. See Attachment F.

Although the present system is an improvement over past methods, identification and supervisory systems used by the Office of the Comptroller of the Currency will continue to evolve as new ways to attack banking problems are developed and refined.

Attachment A

OFFICE PROCEDURE

RATINGS OF BANKS

1-A-S
1

Capital Position - Quality of Assets - Management
Composite or Group Rating

It is desired that the following instructions pertaining to the composite or group rating of banks and the ratings accorded Capital, Quality of Assets and Management be considered carefully and placed in use at once.

Group Ratings: Range from 1 - 4

No. 1 Sound institutions in every respect

No. 2 Those institutions with:

A. Asset weaknesses ranging from relatively moderate to moderately severe, or
B. Negligible asset problems but definitely undercapitalized, or
C. Unsatisfactory management, or
D. A modified combination of these and other weaknesses.

No. 3 Those institutions, 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 those and other points, could reasonably develop into a situation urgently requiring aid from the shareholders or otherwise. Banks in this category require special attention.

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: Range 1 - 4

The following factors will be considered by the Comptroller in assessing the adequacy of capital:

No. 1 Capitalization adequate in relation to factors:

A. The quality of management
B. The liquidity of assets
C. Ths history of earnings and of the retention thereof
D. The quality and character of ownership
E. The burden of meeting occupancy expenses
F. The potential volatility of deposit structure
G. The quality of operating procedures; and
H. The bank's capacity to meet present and future financial needs of its trade area, considering the competition it faces

No. 2 Capitalization inadequate in relation to factors A through H, above.

No. 3 Deterioration of bank's condition to a point where it is considered hazardous. This normally will include all banks whose aggregate of classified assets is sufficient to impair the capital account.

No. 4 Capital impaired by losses.

QUALITY OF ASSETS

Quality of Assets: Range from A - D

Rating A

Good. Ordinarily banks so classified will not have an aggregate total of (1) classified assets, plus (2) unclassified speculative bonds, stocks, and O.R.E., 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 Regional Administrator. An aggregate total 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) unclassified speculative bonds, stocks and O.R.E. that is in excess of 40% of the gross capital structure.

Rating C

Poor. 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) unclassified speculative bonds, stocks and O.R.E. 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) unclassified speculative bonds, stocks and O.R.E. is in excess of 80% of the gross capital structure.

MANAGEMENT RATING: Range S - F - P

S. Strong or Competent

F. Fair

P. Poor, Incompetent, Integrity Questioned.

It is desired that on all copies of the report the Capital, Asset and Management ratings and group rating be entered at the bottom of page 3 of the Confidential Memorandum to the Comptroller of the Currency by Regional Administrators (initial opposite rating) as follows:

$\frac{\text{2-C-F}}{3}$ (initials)

Assistant Chief Examiners will, in addition, show the Capital, Asset and Management ratings and group rating on page 1 as follows:

$\frac{\text{2-C-P}}{3}$

All reports other than 1-A-S or 1-A-F are to be sent to respective Deputy Comptroller.

Attachment B

SPECIAL PROJECTS RATING SYSTEM

CRITICAL

Banks so characterized exhibit a combination of weaknesses and adverse financial trends which are pronounced to a point where the ultimate liquidity and solvency of the institution and its continuance as an independent entity are in question. The probability of failure is high for such banks.

Usually these banks are suffering from a variety of ills which may include combinations of:

A. Mismanagement, arising from ineptness or fraudulent and self-serving practices.

B. Inadequate earnings or loss operations emanating from high loan losses, excessive overhead and operating expenses, deficient asset/liability/liquidity management which has failed to properly match interest-sensitive assets and liabilities in such a way as to provide the bank with a profitable interest spread and a means to meet current demands placed upon it, heavy concentrations in non-accrual loans, renegotiated reduced interest rate loans and non-earning foreclosed real estate, imprudent or speculative dealing and trading in securities, and the like.

C. Inadequate capitalization measured in terms of the bank's earnings capacity and retention rate, its growth pattern, the quality of its assets, management capacity, the liquidity of assets, the efficiency of operations, liquidity/liability management, and the bank's capacity to meet present and future financial needs of its trade area, considering the competition it faces.

D. Poor quality assets, especially when excessive rigidity is prevalent and concentrations exist in assets of doubtful collectibility.

E. Lack of liquidity emanating from an excessive reliance on interest sensitive purchased funds which have become confidence-sensitive due to adverse financial trends and which have not been properly matched against interest-sensitive assets. Secondary liquidity sources through the sale of loans or securities are generally not available to such banks, except at a substantial discount due to heavy concentrations in low yielding fixed rate securities and loans, their poor quality, or their lack of marketability.

F. Other unsafe and unsound policies and practices.

The precarious condition of these banks and the attendant uncertainties as to possible contingent losses arising from threatened or protracted litigation or from the prospects for further financial deterioration, combine to virtually preclude outside support from existing or prospective shareholders. Moreover, the traditional remedy of merger with or sale to a stronger institution is obviated by the same considerations and uncertainties.

Such institutions obviously require the most intense supervision and monitoring by the Comptroller's Office.

SERIOUS

Banks in this category reflect combinations of all or some of the adverse factors noted for Critical banks, except that the weaknesses and financial trends are not so severe as to threaten the immediate liquidity and solvency of the institution. The potential for failure is present but not pronounced. In addition to financial and management considerations, banks may also be placed in this category when significant violations of law or regulation are evident, when unsafe and unsound banking practices of policies first become apparent, or when self-dealing practices of officers and directors come to light. This is true even though such violations or practices may not yet be actually threatening the viability of the bank. Such banks may also require continuous monitoring, supervision and attention from the OCC.

CLOSE SUPERVISION

This category includes banks that may be experiencing a combination of adverse factors noted for Critical and Serious rated banks to the same or lesser degree than those banks in the Serious category, but they possess certain characteristics more favorable than banks in the Problem Bank categories. These favorable characteristics might include all or a combination of the following: a strong market position with solid fund sources and a diversified asset structure, a strong ownership affiliation, management quality, earnings capacity, and capital protection. These banks are less vulnerable than serious category banks and their strength and financial capacity as a whole is such as to make failure a remote possibility. Nevertheless, certain problems remain and require more than ordinary supervisory concern and monitoring. Such banks have typically identified their problems and have implemented remedial action, but because of the nature of some of these problems, such as depressed real estate conditions, a return to a satisfactory condition is primarily dependent upon the rate of economic recovery or other factors beyond the bank's control.

PASS BUT MONITOR

This category will include those banks which the regions are following because the banks may be experiencing minor problems or adverse trends or for any other reasons. Normally banks placed in this category will not have pronounced weaknesses and will not be of undue concern to the OCC.

PASS

All banks not included in the above categories.

Attachment C

Comptroller of the Currency
Administrator of National Banks

Washington, D.C. 20219

Examining Circular No. 159

August 12, 1977

TO ALL REGIONAL ADMINISTRATORS AND EXAMINING PERSONNEL

SUBJECT: Bank Rating System

A newly adopted system for rating banks is being incorporated into the Statistical Data Sheet, Form #CC 9030-21 (revised 8/77). Basically, this new system includes nine categories rated by the Examiner-in-charge and a composite rating assigned by the Regional Administrator, or his designee.

Each of the nine categories, except Asset Quality, will be graded as follows: Strong (1), Acceptable (2), Marginal (3), Unsatisfactory (4), or Hazardous (5), through analysis of the various factors listed under each category. The rating for Asset Quality is determined by referencing the percentage of classified assets to gross capital funds to the chart in the attached procedures under II. ASSET QUALITY.

A list of each category to be rated is attached with evaluating factors, which must be analyzed in making a subjective determination regarding the rating in that category.

These procedures are effective immediately.

Since the composite ratings will be used internally and for reporting to Congress, procedures have been adopted to change a bank's composite rating between examinations in an effort to maintain a current data base. Changes in composite ratings should be submitted on Form #CC 9060-05 and forwarded to the attention of the Special Projects Division. These procedures are more fully detailed in Examining Circular No. 160.

H. Joe Selby
First Deputy Comptroller
for Operations

OFFICE PROCEDURES
RATING OF BANKS

COMPOSITE RATINGS (To be rated by Regional Administrators)

The composite ratings from 1 to 5 as described below will be derived from a subjective determination of the accompanying categories through analysis of the factors detailed.

Group 1 - No action: Sound institution in every respect. No action required.

Group 2 - Peripheral interest: Those institutions with moderate weaknesses in one or more categories requiring minor adjustments.

Group 3 - Close supervision: Those institutions of major interest to the OCC which are experiencing a combination of adverse factors requiring prompt corrective action. Overall strength and financial capacity are such as to make failure a remote possibility. Nevertheless, certain well-defined problems remain and require more than ordinary supervisory concern and monitoring.

Group 4 - Serious: Those institutions of vital interest to the OCC which have unacceptable conditions which could impair future viability. The weaknesses and financial trends are not so severe as to threaten the immediate liquidity and solvency of the institution. A high potential for failure is present but is not pronounced.

Group 5 - Critical: Banks so characterized would normally exhibit a combination of weaknesses and financial trends which are pronounced to a point where the ultimate liquidity and solvency of the institution and its continuance as an independent entity are in serious question. The probability of failure is high for such banks, and they require immediate affirmative action to prevent imminent failure.

CATEGORIES (To be rated by Examiner-in-Charge)

Each of the categories, except asset quality, will be graded as follows: Strong (1), Acceptable (2), Marginal (3), Unsatisfactory (4), or Hazardous (5) through analysis of the various factors.

I. MANAGEMENT/ADMINISTRATION (1 to 5)

A. Technical competence
B. Board supervision
C. Depth and succession
D. Leadership, administrative ability, planning and responsiveness
E. Compliance with statutes
F. Adequacy of/and compliance with policies
G. Self-dealing tendencies

II. ASSET QUALITY/PERCENT OF GCF's (1 to as needed)*

Classified %	Rating	Classified %	Rating	Classified %	Rating
0 - 20	1	110 - 120	11	210 - 220	21
21 - 30	2	120 - 130	12	220 - 230	22
31 - 40	3	130 - 140	13	etc.	
41 - 50	4	140 - 150	14		
51 - 60	5	150 - 160	15		
61 - 70	6	160 - 170	16		
71 - 80	7	170 - 180	17		
81 - 90	8	180 - 190	18		
91 - 100	9	190 - 200	19		
100 - 110	10	200 - 210	20		

III. EARNINGS (1 to 5)

A. Consistency of trends and projections
B. Quality and composition
C. Financial planning
D. Adequacy of transfers to the valuation reserve
E. Ratio comparisons to peer groups
F. Coverage of fixed expenses
G. Coverage of loan losses

IV. CAPITAL ADEQUACY (1 to 5)

A. Ratio analysis and peer group comparisons
B. Planning
C. Dividend policy and retention of earnings
D. Ability to support future growth
E. Willingness to enter equity/debt markets including capacity of present ownership to subscribe to additional stock
F. Ability to enter equity/debt markets
G. Need for dividends by principal owner(s)
H. Need for additional capital funds - today and in the future

V. LIQUIDITY (1 to 5)

A. Adequacy and compliance with established policy
B. Analysis of average liquidity
C. Secondary liquidity
D. Volatility of deposits
E. Adequacy of asset-liability management
F. Volume, usage maturity, and nature of commitments
G. Access to money markets, correspondents, or holding companies
H. Reliance and frequency of borrowings to support liquidity

VI. OWNERSHIP (1 to 5)

A. Composition and character
B. Recent changes
C. Financial capacity
D. Holding Company/large shareholder impact (self-dealing tendencies)

*OAEM is not used in these computations.

VII. INTERNAL CONTROLS (1 to 5)

A. Quality of operations
B. Adequacy of controls
C. Director/Management responsiveness

VIII. AUDITING AND CREDIT REVIEW PROGRAMS (1 to 5)

A. Independence
B. Quality
C. Adequacy and competency of staff
D. Scope and frequency of examinations
E. Director/Management responsiveness
F. Quality of external audit/credit review

IX. EXTERNAL CONDITIONS/FUTURE PROSPECTS (1 to 5)

A. Local economic conditions and trends
B. Competition
C. Concentrations in economy
D. Consumerism
E. Local reputation

NAME OF BANK: XYZ National Bank CHARTER NUMBER: 4444

(Show prior three and current examination data.)

			A	B	C	D	
RATING	65. Composite Rating		3	4	4	4	65
	66. Management/Administration		3	4	4	4	66
	67. Asset Quality		6	8	10	13	67
	68. Earnings		2	3	3	4	68
	69. Capital Adequacy		2	3	3	3	69
	70. Liquidity		1	2	2	3	70
	71. Ownership		2	2	2	2	71
	72. Internal Controls		2	2	2	2	72
	73. Audit and credit review programs		3	3	3	3	73
	74. External Conditions/Future Prospects		3	3	3	3	74
OTHER	75. People Days	#					75
	76. Number of Criticized Loan Write-Ups	#					76
	77. Blanket Bond—Base Amount	$					77
	78. Blanket Bond—Excess Amount	$					78
	79. Number of Shareholders	#					79
	80. Number of Branches (exclude CBCTs)	#					80
VIOLATIONS OF LAW (Number)	81. 12 USC 29	#					81
	82. 12 USC 60	#					82
	83. 12 USC 82	#					83
	84. 12 USC 84	#					84
	85. 12 USC 371c	#					85
	86. 12 USC 371d	#					86
	87. 12 USC 375a	#					87
	88. 31 USC or 31 CFR	#					88
	89. 12 CFR 23	#					89
	90. 12 CFR 217 (Reg. Q)	#					90
	91. 12 CFR 221 (Reg. U)	#					91
	92. 12 CFR 226 (Reg. Z)	#					92
	93. 18 USC	#					93
	94. Bank Holding Company Act	#					94
	95. Other	#					95
	96. C & D Orders or Agreements	#					96
EXTENSIONS OF CREDIT TO INSIDERS AND THEIR INTERESTS (Data from Examination Report)	**DIRECT**						
	97. Obligations of insiders, etc.	$					97
	98. Obligations of corporations, etc.	$					98
	99. Obligations of others, etc.	$					99
	100. Investments in stocks, etc.	$					100
	INDIRECT						
	101. Obligations of insiders, etc.	$					101
	102. Obligations of corporations, etc.	$					102
	103. Obligations of others, etc.	$					103
	104. Investments in stocks, etc.	$					104
	105. Subtotal	$					105
	106. Less Duplications between Direct and Indirect	$					106
	107. Total	$					107
	108. Percent of Gross Loans	%	%	%	%	%	108
	109. Percent of Criticized Insider Loans to Total Criticized Loans	%	%	%	%	%	109

			D	
NBSS PROJECTION REPORT (Examining Circular 132. Show)	110. Local Economic Conditions (Bank's Domestic Trade Area)	#		110
	111. Expected change in total resources in next 12 months	#		111
	112. Expected change in asset distribution in next 12 mos.	#		112
	113. Interest Income	#		113
	114. Interest Expense	#		114
	115. Gross Loan Losses	#		115
	116. Ownership and Management	#		116
	117. Holding Company Operations	#		117
	118. Capital Structure	#		118
	119. Types of Loans	#		119

Terms used in this form correspond to the following definitions in Instructions for Preparation of Consolidated Reports of Condition and Reports of Income

Total Assets—Line 16 Total Deposits—Line 24 Total Loans—Line 9a Net Loans—Line 9c Direct Lease Financing—Line 10 Gross Loans—Schedule A. Item 8 TCF—Sum of lines 31 and 37. GCF—Sum of Lines 31 37 and 98 ACF—GCF minus loss and 50% of Doubtful

[1] The adjusted sum of substandard. 50% of Doubtful. and 50% of OAEM as a percent of adjusted capital funds

[2] Mortgages Capital Notes. Debentures. etc

[3] Federal Funds Purchased Repo s. Borrowings from Federal Reserve Bank (Short term) etc

[4] Purchased Funds (all short term forms of money market obligations except for mortgage debt and capital notes and debentures) less sold Funds (includes Fed Funds sold and repo s purchased)

[5] Rate sensitive deposits (RSD) include any certificate of deposit savings certificate other savings instrument in excess of $100 000

Attachment D

Comptroller of the Currency
Administrator of National Banks

Washington, D. C. 20219

Examining Circular No. 160

August 12, 1977

TO ALL REGIONAL ADMINISTRATORS AND EXAMINING PERSONNEL

SUBJECT: Banks Requiring Special Supervisory Attention: Composite Rated 3, 4, and 5 Banks.

To be currently informed about banks requiring Special Supervisory Attention, it is necessary that such banks be regularly identified and classified according to the severity of their problems. Under the new rating system, banks requiring Special Supervisory Attention will consist of those banks with composite ratings of 3, 4, or 5. In declining order of severity, these designations are:

Group 5 - Critical: Banks so characterized would normally exhibit a combination of weaknesses and financial trends which are pronounced to a point where the ultimate liquidity and solvency of the institution and its continuance as an independent entity are in serious question. The probability of failure is high for such banks, and they require immediate affirmative action to prevent imminent failure.

Group 4 - Serious: Those institutions of vital interest to the OCC which have unacceptable conditions which could impair future viability. The weaknesses and financial trends are not so severe as to threaten the immediate liquidity and solvency of the institution. A high potential for failure is present but is not pronounced.

Group 3 - Close Supervision: Those institutions of major interest to the OCC which are experiencing a combination of adverse factors requiring prompt corrective action. Overall strength and financial capacity are such as to make failure a remote possibility. Nevertheless, certain well-defined problems remain and require more than ordinary supervisory concern and monitoring.

Supporting Memorandum

When an examination of a national bank reveals problems and characteristics which are deemed by the Regional Administrator to warrant assignment of a 3, 4, or 5 rating, the following procedures are to be employed by the Regional Office:

A two-page memorandum to the Special Projects Division will be prepared. The first (narrative) page, OCC Form #CC 9060-04 (Exhibit A), of the memorandum should be divided into these three distinct sections:

IDENTIFICATION AND NATURE OF THE PROBLEM

The initial paragraph under this section should contain a concise description of the specific problems or difficulties causing the designation of the bank as one requiring Special Supervisory Attention as well as the names of those persons who are responsible for the difficulties. Next, discuss the events precipitating the problem and give an analysis of the current situation as it relates to the condition of the bank. If appropriate, be certain to include information with respect to self-serving or other unfavorable tendencies on the part of management. Do not repeat statistical data shown on page two of the memorandum.

CORRECTIVE ACTION

Identify any corrective action being taken at the direction of the Board of Directors or the Regional Administrator or otherwise, and list specific improvements noted as a direct result of such corrective action. Include information regarding the Region's plans to monitor the bank's progress through monthly progress reports, to meet with management and the Board of Directors, to conduct the next examination, and indicate in all cases whether action under the Financial Institutions Supervisory Act of 1966 is desirable. If a formal agreement or cease and desist action is recommended, do not include specific charges and desired corrective orders; these should be incorporated in a separate memorandum to the Special Projects Division.

GENERAL

Provide brief information about the bank including location, economic characteristics of the trade area served, recent merger transaction, competition, number of branches, and whether trust powers are exercised. If not discussed under "Identification and Nature of the Problem", specific information on where stock control is vested, who make management decisions, and an estimate of their capability is desired. The last sentence of this section should indicate the Regional Administrator's specific group rating, either 3, 4, or 5. If at all possible, the narrative comments should be confined to one page.

Page two of the memorandum will be the "Statistical Data Sheet" (#CC 9030-21 Rev. 8/77) attached as Exhibit B. This will contain the Regional Administrator's composite rating as well as the examiner's ratings by category.

Washington Office Review/Resolution of Disagreements

When the memorandum containing the Regional Administrator's rating of 3, 4, or 5 is received by the Special Projects Division, it will be reviewed by a national bank examiner in that Division. If the review examiner concurs with the Regional Administrator's rating and the corrective measures which are to be employed, he will indicate agreement by placing his signature under the date of his review. The Director of Special Projects, or his designee, will also sign the memorandum prior to its distribution. All Group rated 4 and 5 banks will also be reviewed by the Associate Deputy Comptroller for Special Surveillance.

If a difference of opinion exists between the Regional Office and the Special Projects Division regarding the rating or the anticipated corrective measures, the Regional Administrator will be contacted by telephone in an effort to resolve the matter. If agreement still cannot be reached, the matter will be brought to the attention of the First Deputy Comptroller for Operations for ultimate resolution. The final decision regarding the ratings and corrective measures rests at the Washington level.

Change in Ratings Between Examinations

If the condition of any bank changes significantly between examinations, a change in the composite rating can be made by the Regional Administrator using OCC Form #CC 9060-05 (Exhibit C). The Special Projects Division, after consultation with the Regional Administrator, may also initiate a change in the rating. The narrative comments should be very concise, citing a brief history of the problems confronting the bank, their causes, and the favorable or unfavorable developments which warrant a change in rating. The form should be mailed to the attention of the Special Projects Division for review with any differences of opinion to be handled as noted in the preceding paragraph.

Recordkeeping

It will be the responsibility of the Special Projects Division to distribute memoranda prepared for composite rated 3, 4, or 5 banks and to maintain records of banks requiring Special Supervisory Attention, which will be considered confidential material. A computerized list of all composite rated 3, 4, and 5 banks will be provided the Regions on a monthly basis, together with a list of rating changes during the month.

It will be the responsibility of the Regions to ensure that all data, memoranda, or other correspondence relative to the conditions of banks requiring Special Supervisory Attention be routed on a timely basis to the Special Projects Division through use of the "Priority" routing stamp presently in use. Regions should also certify the monthly list of 3, 4, and 5 rated banks to their records to determine that all reported changes have been recorded. Errors or omissions should be reported to the Special Projects Division.

Quarterly Summary and Update

An updated analysis of each composite rated 3, 4, or 5 bank will be provided by the Regional Administrators within thirty (30) days of the end of each calendar quarter. OCC Form #CC 9060-06 (Exhibit D) should be used for this purpose and should be forwarded to the Special Projects Division.

A response should be made to each item in the printed portion of the form. The "Remarks"should include a concise explanation of the problem, an earnings update, a list of the positive corrective actions being taken to effect improvement with special emphasis devoted to those taken since the preceeding summary. In each instance, the need for formal action under the Financial Institutions Supervisory Act of 1966 should be considered.

Input from all relevant regional staff members and the Regional Administrator's personal knowledge must be utilized in the preparation of the Quarterly Summary and Update for 3, 4, or 5 rated banks.

The quarterly NBSS review must be coordinated and scheduled to permit the inclusion of the latest data in the Regional Administrator's Quarterly Summary and Update of 3, 4, and 5 banks. (e.g., A BPR as of 6/30/77, received on 9/15/77, must be reviewed and its results incorporated in the Quarterly Summary and Update due within thirty (30) days of 9/30/77.) Copies of the NBSS Quarterly Review Memos on 3, 4, and 5 banks need not be sent to this Office.

The Regional Administrators and the Special Projects Division will review each of the banks rated 3, 4, or 5 at the end of each quarter to determine whether or not the ratings should be changed. If any of these banks requiresa rating change, OCC Form #CC 9060-05 (Exhibit C) should be completed and forwarded to the Special Projects Division within thirty (30) days of the end of the calendar quarter. Quarterly statistical aggregates will then be compiled by the Special Projects Division for both internal use and public release at Congressional hearings.

Enforcement and Compliance Policy

It will be the general policy of the OCC to take formal enforcement and compliance action in the form of a cease and desist order or an agreement under the Financial Institutions Supervisory Act of 1966 on all banks rated 4 (Serious) or 5 (Critical). Exceptions to this policy may be appropriate depending on circumstances germane to a particular banking situation. However, before formal enforcement action is waived by the Regional Administrator, the concurrence of the First Deputy Comptroller for Operations must specifically be sought under the following procedures:

A. The Regional Administrator will generate a memorandum to the Special Projects Division, stating the reasons why a formal enforcement action is thought to be inappropriate, and indicating what alternative remedial supervisory action he intends to take.

B. The Enforcement and Compliance Division and the Special Projects Division will review each request for an exception to the general policy and make their recommendations to the First Deputy Comptroller for Operations.

C. The First Deputy Comptroller for Operations will make the decision as to whether or not an exception to the policy should be made.

For banks rated 3 (Close Supervision), the OCC general policy will be that formal action under the Financial Institutions Supervisory Act be considered. If formal action is waived by the Regional Administrator, informal action using one or more of the following forms is suggested:

- an informal letter agreement backed by a Board resolution.
- a Board resolution, the substance of which has been requested by the OCC.
- an informal letter agreement acknowledged by the Board of Directors.
- a one-time report from the bank which addresses the major deficiencies set forth in the examination report and/or in correspondence from the Regional Administrator, and the bank's plan to correct same.
- a monthly, quarterly or other periodic report filed by the bank on the progress made in correcting the deficiencies as outlined in the report of examination or in other OCC correspondence.

Conclusion

In summary, the procedures just described are designed to ensure that banks identified for Special Supervisory Attention are receiving appropriate internal review and monitoring by the OCC and that appropriate formal and informal remedial measures are being sought and implemented.

While input from the Regional Administrator is basic and primary to the rating process, the final determination of ratings of banks requiring Special Supervisory Attention rests at the Washington level, where additional benefits may accrue from a detached viewpoint, systemwide perspective, and standardized criteria.

The lists, memoranda, and related data are solely internal working documents and are to receive the utmost in confidential treatment and security.

It is recognized that the Regional Administrators may be presented with supervisory problems by banks which may not exhibit sufficient financial or managerial deficiencies to warrant assignment of a rating of 3, 4, or 5. The Regional Administrators may, if they wish, maintain for their use a Regional watch list to accomodate such banks.

H. Joe Selby
First Deputy Comptroller
for Operations

BANKS REQUIRING SPECIAL SUPERVISORY ATTENTION EXHIBIT A
(Group Rated 3, 4, 5)

NAME OF BANK Any Bank REGION NO. 15 CHARTER NO. 777

CITY Any City STATE Any State

COMMENTS:

Identification and Nature of Problem

The unrealistic policies of a self-serving ownership/management have resulted in an excessive volume of classified assets, heavy loan charge-offs, inadequate capital, and the lack of adequate provisions for liquidity.

Subject became a matter of supervisory concern following the purchase of 51% of outstanding stock by Chairman John L. Smith and President Henry J. Jones in October 1973. Due to their liberal lending and lax collection policies, classified loans increased to the point where close supervision status was applied following the September 1974 examination. Since then, the trend to deterioration has continued and loan losses of significant proportions have resulted. Loans have been granted without regard for the credit-worthiness of borrowers or adequate security and without repayment programs. Documentation is wholly inadequate and violations of law are a continuing criticism. Reasonably acceptable gross earnings have been dissipated through loan losses, payment of excessive salary, bonus, and expense allowances to Messrs. Smith and Jones, and unwarranted, unearned cash dividends.

Liquidity presents a potentially serious problem. Frequent use of borrowed funds has been necessary to support the unusually high loan volume. The securities portfolio provides only minimal support as a secondary reserve due to a large volume of long-term issues and large depreciation.

Chairman Smith (46) and President Jones (40) completely dominate policy formulation in their role as part-time officers. Executive Vice President James R. Gray (55), managing officer in name only, possesses limited ability and is completely subservient to the wishes of ownership. Junior officers are no better than mediocre. The other directors have been indifferent to the situation.

Corrective Action

Previous meetings with the directors, periodic examiner visitations and required progress reports from the bank have not produced the desired results. The undersigned recently met with the directors again, but due to the dominance and cavalier attitude of Smith and Jones, little was accomplished. Accordingly, a recommendation for formal enforcement action is being forwarded at this date.

General

Subject opened in 1951, has not been involved in any merger-type transactions, is not empowered to act in any fiduciary capacity, and has no branches. Competition is provided by a local bank of similar size and there are four other banks within a 10-mile radius. The economy of the trade area of some 10,000 persons depends largely upon livestock production, but resort activity in the area is becoming more important.

The continued deterioration in the bank's condition as well as the unwillingness and inability of management to effect improvements justify assignment of the Serious Rating.

Rating: 4

By: ______________________
JOHN STRONGHEART
Regional Administrator
(Date: June 14, 1977)

Special Projects:

Concur: ______________________
James Haveheart
NBE-Special Projects
(Date: June 21, 1977)

Concur: ______________________
Joe Noheart
Director, Special Projects
(Date: June 21, 1977)

INSTRUCTIONS:

(1) This memorandum should be completed and forwarded for all banks rated 3, 4, or 5 at the conclusion of each examination. Comments should be made under the following headings: Identification and Nature of Problems, Corrective Action, and General. If additional space is needed use reverse side. See Examining Circular No. 160.

(2) Forward to: Comptroller of the Currency, Attention: Special Projects Division, Washington, D.C. 20219

(3) Use "PRIORITY" routing stamp.

OCC Form # CC 9050-04

STATISTICAL DATA

NAME OF BANK ______ REGION NO. ______ CHARTER NO ______

CITY ______ STATE ______

A. CONTROLLING OWNER ______ B. PERCENT OWNERSHIP ______

C. CHANGE IN CONTROLLING OWNER LAST 12 MONTHS YES ☐ NO ☐

D. DATE CHIEF EXECUTIVE OFFICER APPOINTED ___/___/___ (m d y)

(Show prior three and current examination data)	A	B	C	D	
1. Type of Examination					1
2. Date of Examination					2
3. Name of Examiner					3
	Thousands of dollars	Thousands of dollars	Thousands of dollars	Thousands of dollars	
4. Total Assets $					4
5. Total Deposits $					5
6. Net Loans $					6
7. Direct Lease Financing $					7
8. Gross Capital Funds (GCF) $					8
9. Total Capital Funds (TCF) $					9
10. Adjusted Capital Funds (ACF) $					10
11. Total Deposits x TCF X					11
12. Net Loans and Direct Lease Financing x TCF X					12
13. Total Assets x TCF X					13
14. Net Loans & Direct Lease Financing/Total Deposits %	%	%	%	%	14
15. Substandard $					15
16. Doubtful $					16
17. Loss $					17
18. Total Classified Assets $					18
19. Classified Assets/GCF %	%	%	%	%	19
20. OAEM $					20
21. OAEM/GCF %	%	%	%	%	21
22. SP Ratio[1] %	%	%	%	%	22
23. Reserve for Possible Loan Losses (RPLL) $					23
24. RPLL/Total Loans %	%	%	%	%	24
25. Loans Not Supported by Current Cr. Info. $					25
26. Loans Not Supported by Current Cr. Info./Gross Loans %	%	%	%	%	26
27. Overdue Loans $					27
28. Overdue Loans/Gross Loans %	%	%	%	%	28
29. Non-Accrual Loans $					29
30. Non-Accrual Loans/Gross Loans %	%	%	%	%	30
31. Other Real Estate Owned $					31
32. Bond Depreciation $					32
33. Bond Depreciation/ACF %	%	%	%	%	33
34. Net Liquid Assets/Net Deposits %	%	%	%	%	34
35. Direct or Indirect Investment in FA/ACF %	%	%	%	%	35
36. Standby Letters of Credit $					36
37. Customers Liability on Acceptances $					37
38. Borrowings—Term Debt[2] $					38
39. Borrowings—Purchased Funds[3] $					39
40. Number of Days Net Borrowed Last 12 Months[4] #					40
41. Rate Sensitive Deposits (RSD)[5]/Total Deposits %	%	%	%	%	41
42. RSD plus Purchased Funds/Total Deposits plus Purchased Funds %	%	%	%	%	42
(Show last three full calendar years from Consolidated Reports of Income and latest interim figures available during examination)	A 197__	B 197__	C 197__	D mo. day yr	
43. Operating Income $					43
44. Operating Expense $					44
45. Income before Inc. Tax & Sec. G&L $					45
46. Applicable Income Taxes $					46
47. Income before Sec. G&L $					47
48. Security Gains (Losses) Net, Etc. $					48
49. Net Income $					49
50. Add: Provision for Possible Loan Losses $					50
51. Add: Recoveries to RPLL $					51
52. Less: Losses Charged to RPLL $					52
53. Adjusted Net Income $					53
54. Less: Dividends $					54
55. Retained Earnings $					55
56. Return on Average Assets (NBSS Report) %	%	%	%	%	56
PAYMENTS, DIRECT OR INDIRECT, BY BANK TO THE PARENT HOLDING COMPANY AND ITS AFFILIATES (EXCLUDE PAYMENTS TO SUBSIDIARIES OF THE REPORTING BANK)	A 197__	B 197__	C 197__	D __/__/__ mo day yr	
57. Dividends $					57
58. Fees for computer services $					58
59. Other service fees $					59
60. Overhead charges for management services $					60
61. Lease Payments $					61
62. Payments for income tax liability $					62
63. All Other $					63
64. Total Payments $					64

CC-9030-21
Rev. 8-77

NAME OF BANK ______________________ CHARTER NUMBER ____________

(Show prior three and current examination data.)

			A	B	C	D	
RATING	65. Composite Rating						65
	66. Management/Administration						66
	67. Asset Quality						67
	68. Earnings						68
	69 Capital Adequacy						69
	70 Liquidity						70
	71 Ownership						71
	72. Internal Controls						72
	73. Audit and credit review programs						73
	74 External Conditions/Future Prospects						74
OTHER	75 People Days	#					75
	76. Number of Criticized Loan Write-Ups	#					76
	77 Blanket Bond — Base Amount	$					77
	78 Blanket Bond — Excess Amount	$					78
	79 Number of Shareholders	#					79
	80 Number of Branches (exclude CBCTs)	#					80
VIOLATIONS OF LAW (Number)	81 12 USC 29	#					81
	82. 12 USC 60	#					82
	83 12 USC 82	#					83
	84. 12 USC 84	#					84
	85 12 USC 371c	#					85
	86 12 USC 371d	#					86
	87. 12 USC 375a	#					87
	88. 31 USC or 31 CFR	#					88
	89. 12 CFR 23	#					89
	90 12 CFR 217 (Reg. Q)	#					90
	91. 12 CFR 221 (Reg. U)	#					91
	92. 12 CFR 226 (Reg. Z)	#					92
	93. 18 USC	#					93
	94. Bank Holding Company Act	#					94
	95. Other	#					95
	96. C & D Orders or Agreements	#					96

EXTENSIONS OF CREDIT TO INSIDERS AND THEIR INTERESTS (Data from Examination Report)

		A	B	C	D	
DIRECT						
97. Obligations of insiders, etc	$					97
98. Obligations of corporations, etc.	$					98
99 Obligations of others, etc.	$					99
100 Investments in stocks, etc.	$					100
INDIRECT						
101. Obligations of insiders, etc.	$					101
102 Obligations of corporations, etc.	$					102
103 Obligations of others, etc	$					103
104 Investments in stocks, etc.	$					104
105 Subtotal	$					105
106 Less Duplications between Direct and Indirect	$					106
107 Total	$					107
108 Percent of Gross Loans	%	%	%	%	%	108
109. Percent of Criticized Insider Loans to Total Criticized Loans	%	%	%	%	%	109

NBSS PROJECTION REPORT (Examining Circular 132 Show Codes for Current Exam Only)

		D	
110 Local Economic Conditions (Bank's Domestic Trade Area)	#		110
111. Expected change in total resources in next 12 months	#		111
112 Expected change in asset distribution in next 12 mos.	#		112
113. Interest Income	#		113
114 Interest Expense	#		114
115 Gross Loan Losses	#		115
116. Ownership and Management	#		116
117. Holding Company Operations	#		117
118 Capital Structure	#		118
119 Types of Loans	#		119

Terms used in this form correspond to the following definitions in instructions for Preparation of Consolidated Reports of Condition and Reports of Income. Use fully consolidated foreign and domestic figures.

Total Assets — Line 16. Total Deposits — Line 21 or 24d. Total Loans — Line 9a. Net Loans — Line 9c. Direct Lease Financing — Line 10. Gross Loans — Schedule A, Item 8. TCF — Sum of Lines 31 and 37. GCF — Sum of Lines 31, 37 and 38. ACF — GCF minus loss and 50% of Doubtful.

The sum of substandard, 50% of Doubtful and 50% of OAEM as a percent of adjusted capital funds.

Mortgages, Capital Notes, Debentures, etc.

Fed. Funds Purchased, Repos, Borrowings from Federal Reserve Bank (Short term), etc.

Purchased Funds (all short term forms of money market obligations, except for mortgage debt and capital notes and debentures) less sold Funds (includes Fed. Funds sold and repos [illegible] purchased).

Rate sensitive deposits (RSD) include any certificate of deposit, savings certificate, other savings instrument of $100,000 and over.

EXHIBIT C

RATING CHANGE MEMORANDUM

NAME OF BANK Any Bank REGION NO. 15 CHARTERNO. 999

CITY Any City STATE Any State

(Show Prior Three Examination Data)

Date of Examination	12-10-75	7-15-76	1-25-77
Total Assets	9,150	9,540	10,560
Rating	3	4	3

Present Rating: 3

New Rating: 2

COMMENTS

Dominance and self-serving practices on the part of former directors and control owners John L. Money and Henry J. Longterm brought a burdensome volume of adversely classified assets, charge-offs, inadequate capital, and a tenuous liquidity posture, requiring a Cease and Desist Order in early 1976. Subsequently, Money and Longterm sold controlling interest to a local group, who brought in competent management, injected capital, and cleaned up the bank's asset condition.

Monthly visits since previous examination indicate subject has returned to a reasonably acceptable condition. It is recommended that the rating be changed from a Close Supervision status to 2.

JOHN J. DOE
Regional Administrator
(Date: June 4, 1977)

Special Projects:

Concur: __________ Concur: __________

John Mix
NBE-Special Projects
(Date: June 4, 1977)

James Nix
Director, Special Projects
(Date: June 4, 1977)

INSTRUCTIONS:

(1) Complete and forward this form for any composite rating change between examinations.

(2) Forward to: Comptroller of the Currency, Attention: Special Projects Division, Washington, D.C. 20219

(3) Use "PRIORITY" routing stamp.

OCC Form # CC 9060-05

EXHIBIT D

QUARTERLY SUMMARY AND UPDATE
BANKS REQUIRING SPECIAL SUPERVISORY ATTENTION
(Group Rated 3, 4 or 5)

NAME OF BANK Any Bank REGION NO. 15 CHARTER NO. 666

CITY Any City STATE Any State

CONTROLLING OWNER Joe Jerk/Harry Fleece PERCENT OWNERSHIP 52%

(Show Prior Three Examination Data)

Date of Exam	11-25-75	5-4-76	12-15-76
Total Assets	8,924	9,562	12,249
Rating	4	4	4
Formal E & C Action	None	None	Agreement

Quarter Covered: First Quarter, 1977 Date Prepared: April 15, 1977

"REMARKS"

Nature of Problem

Dominance, laxness in lending and collecting, and self-serving practices on the part of two directors who acquired control in late 1973 brought an excessive volume of adversely classified assets, significant loan losses, inadequate capital, a concentration of low quality insider loans, and lack of liquidity.

Earnings

Bank has had three successive years of loss operations. During 1976 losses aggregated $70M further straining the capital situation. First quarter 1977 results are unavailable but an examination in progress indicates substantial additional losses will be taken in the second quarter of 1977, which may well jeopardize the bank's ability to show a profit for the year.

Corrective Action/Outlook

The bank has not adhered to the provisions of the Agreement entered into after the last examination. Cease and Desist Action is contemplated at the conclusion of the current examination.

By: ______________________
JOHN DOE
Regional Administrator

SPECIAL PROJECTS ADDENDUM:

Reviewed April 20, 1977. Enforcement and Compliance alerted. Preliminary draf of Cease and Desist Order is in process.

INSTRUCTIONS:

(1) Complete on each bank rated 3, 4 or 5 and forward within thirty days of the end of each calendar quarter. Remarks should be made under the following headings: Nature of Problem, Earnings, and Corrective Action/Outlook. See Examining Circular No. 160.

(2) Forward to: Comptroller of the Currency, Attention: Special Projects Division, Washington, D.C. 20219

(3) Use "PRIORITY" routing stamp.

OCC Form # CC 9060-06

BANKS REQUIRING SPECIAL SUPERVISORY ATTENTION
(Group Rated 3, 4, 5)

NAME OF BANK________ REGION NO.______ CHARTER NO.______

CITY ________ STATE ________

COMMENTS:

Rating: ☐

By: ____________
Regional Administrator
(Date:)

Special Projects:

Concur: ____________
NBE — Special Projects
(Date:)

Concur: ____________
Director, Special Projects
(Date:)

INSTRUCTIONS:

(1) This memorandum should be completed and forwarded for all banks rated 3, 4, or 5 at the conclusion of each examination. Comments should be made under the following headlines: *Identification and Nature of Problems, Corrective Action,* and *General.* If additional space is needed use reverse side. See Examining Circular No. 160.

(2) Forward to: Comptroller of the Currency, Attention: Special Projects Division, Washington, D.C. 20219

(3) Use "PRIORITY" routing stamp.

CC 9060-04

RATING CHANGE MEMORANDUM

NAME OF BANK__________ REGION NO.__________ CHARTER NO.__________

CITY__________ STATE__________

	(Show Prior Three Examination Data)		
Date of Examination			
Total Assets			
Rating			

Present Rating: ☐

New Rating: ☐

COMMENTS

____
Regional Administrator
(Date:)

Special Projects:

Concur:____________________
NBE — Special Projects
(Date:)

Concur:____________________
Director, Special Projects
(Date:)

INSTRUCTIONS:

(1) Complete and forward this form for any composite rating change between examinations.

(2) Forward to: Comptroller of the Currency, Attention: Special Projects Division, Washington, D.C. 20219

(3) Use "PRIORITY" routing stamp.

CC 9060 05

QUARTERLY SUMMARY AND UPDATE
BANKS REQUIRING SPECIAL SUPERVISORY ATTENTION
(Group Rated 3, 4 or 5)

NAME OF BANK ____________ REGION NO. ________ CHARTER NO. ________

CITY ____________ STATE ____________

CONTROLLING OWNER ____________ PERCENT OWNERSHIP ________

(Show Prior Three Examination Data)

Date of Exam			
Total Assets			
Rating			
Formal E & C Action			

Quarter Covered: Date Prepared:

"REMARKS"

By: ____________
Regional Administrator

SPECIAL PROJECTS ADDENDUM:

INSTRUCTIONS:

(1) Complete on each bank rated 3, 4 or 5 and forward within thirty days of the end of each calendar quarter. Remarks should be made under the following headings: *Nature of Problem, Earnings,* and *Corrective Action/Outlook.* See Examining Circular No. 160.

(2) Forward to: Comptroller of the Currency, Attention: Special Projects Division, Washington, D.C. 20219

(3) Use "PRIORITY" routing stamp.

CC 9060-06

Attachment E

Comptroller of the Currency
Administrator of National Banks

Washington, D.C. 20219

Examining Circular No. 161

August 12, 1977

TO: ALL REGIONAL ADMINISTRATORS AND EXAMINING PERSONNEL

SUBJECT: Special Projects Program

On May 8, 1977, the Special Projects Group, Bank Review Group, and elements of the NBSS Action Control System were reorganized under the name, Special Projects Division.

The primary purpose of the program remains unchanged. That purpose is to identify, for special supervisory attention, those banks demonstrating characteristics which have seriously weakened their overall conditions, and particularly those banks which have liquidity, solvency or other problems which threaten the future viability of the institution.

The Comptroller has taken a personal interest in this program, which is designed primarily to keep him informed. Effective and timely communication, either written or oral, from the regions to Washington, and vice versa, is the key to success. Cooperation is essential.

For the first time all banks with assets exceeding $2 billion will be assigned to the program regardless of overall condition. This will enable the Washington Office to keep current on substantive developments affecting these multi-national institutions, which are vitally important to the nation's banking system and the world economy.

In addition, all banks assigned a composite rating of 5 (Critical), 4 (Serious), or 3 (Close Supervision) under the new rating system will automatically be included in the program.

In addition to the staff of the Special Projects Division, the staffs of other Washington and regional divisions and groups must participate in the Special Projects Program.

Other minor changes to the Special Projects Program have been set forth in the attached revision. Please note particularly that the Special Projects/Bank Review Analysis Sheet has been replaced by the Statistical Data Sheet (CC-9030-21). This data sheet should be completed to the extent possible and attached to the SP memo in connection with all general, specialized and special supervisory examinations, or any other visit which includes a credit review.

You are reminded that once a bank has been assigned to the program a SP memo and statistical sheet must be completed and forwarded at each subsequent examination or visitation, regardless of the level of classified assets or improvements noted. This procedure should be followed until such time as the bank has been officially removed from the program, in accordance with procedures set forth in the attached instructions.

Regional Administrators should take care that procedures are in place to assure the timely processing and forwarding of examination reports and other data and memoranda pertaining to Priority banks. In this connection, it is essential that such data be marked with the word "Priority" if expeditious handling in Washington is to be assured.

It is our hope the changes just described will enhance communication between the Regions and the Washington Office. All Priority banks, large and small, and all banks assigned to the Action Control System will be followed by a single division. This should greatly reduce the number of individuals in the Washington Office the Region will have to contact regarding banks requiring special supervisory attention.

H. Joe Selby
First Deputy Comptroller
for Operations

SPECIAL PROJECTS PROGRAM

PARTICIPANTS:

Regional participants will include the examiners who conducted the examination of banks subject to the program as well as the Regional Administrator, his deputies, or other designees.

In Washington, responsibility for banks in the program will rest with the Special Projects Division, which will consist of a Director and a professional staff of national bank examiners.

Overall supervisory responsibility for the Special Projects Program will be vested in the First Deputy Comptroller for Operations, with primary administration delegated to the Associate Deputy Comptroller for Special Surveillance.

Other Washington Office staff participating in the program on a full or part-time basis include those of:

1. The Enforcement and Compliance Group,
2. All divisions of Bank Operations,
3. The NBSS Division and
4. The Securities Disclosure Group.

CRITERIA:

The primary purpose of the program is to identify, for special supervisory attention, those banks which demonstrate characteristics warranting closer review or which have liquidity, solvency, or other problems which may threaten the future viability of the bank. The following criteria will be used to determine banks assigned to the program:

30-476 O - 78 - 27

A. All banks with a composite rating of 3 (Close Supervision), 4 (Serious), or 5 (Critical).

B. All banks operating under a formal written agreement or a Cease and Desist Order.

C. All banks with assets exceeding $2 billion, regardless of condition.

D. Banks will be designated by the Regional Administrators when, in their best judgement, the quality of assets, sufficiency of earnings, ability and depth of management, capital adequacy and other factors militate for inclusion in the program. In addition, all banks having criticized assets (100% substandard, 50% OLEM, 50% doubtful) aggregating 65% of adjusted capital funds will be reviewed by the Regional Administrator for possible inclusion.

E. All banks having criticized assets (as defined above) aggregating 65% of adjusted capital funds, and not designated by the Regions under A, will be reviewed by the Special Projects Division for possible inclusion in the program.

F. Using the same criteria or additional criteria as may be developed, the Banking Operations, Special Projects, and NBSS Divisions may designate additional banks for the program.

REMOVAL OF A BANK FROM THE PROGRAM:

When a bank no longer meets the criteria as described above, or in the opinion of the Regional Administrator the bank no longer requires special supervisory attention, the Regional Administrator should submit a memorandum to the Special Projects Division recommending removal of the bank from the program. The decision on such recommendations will be made by the Special Projects Division, subject to a review by the First Deputy Comptroller for Operations and the Associate Deputy Comptroller for Special Surveillance. The Division will retain the option to delete a bank from the program.

COMMUNICATIONS:

Written:

All reports of examination of banks assigned to the program, as well as those recommended. will be marked with the word "PRIORITY." In addition, letters, memoranda or other data pertaining to problems or the correction of problems, or matters of substance in the case of banks with assets exceeding $2 billion, will also be so marked. Such reports and correspondence should receive expeditious processing and should be forwarded to the attention of the Special Projects Division.

The Special Projects Division should be notified, in writing, of any significant corporate activities of banks assigned to the program, except branch applications. Of particular interest are applications dealing with mergers and acquisitions, equity and debt capital issues, and the establishment of operating subsidiaries.

Other correspondence relative to banks in the program should be directed to the appropriate individual, division or group in the Washington Office through use of the attention line.

Telephone:

Conference calls will be arranged on a case-by-case basis at the initiation of either Regional Administrators, their designees or Washington Office staff participating in the program.

PROCEDURES: NATIONAL BANK EXAMINERS:

The Examiner-in-Charge of each examination will communicate with the regional or Washington Office under the following circumstances and in the following manner:

1. By telephone to the Regional Office, during an examination as soon as it becomes apparent that there are significant adverse changes in a bank in the program or there is evidence that a bank should be placed in the program.
2. In writing, to be forwarded to his Regional Administrator as per Exhibit A (the Special Projects memo) no later than the time of concluding his examination. The SP Memo will include basic statistical information; a concise narrative of the bank's significant problems, to include cause and a summary of pertinent subsequent events; and specific recommendations for appropriate corrective action. The Regional Administrator will mark the SP memo with the "PRIORITY" stamp and add his opinion to those of the examiner. The SP memo should be forwarded within

two business days after receipt in the Regional Office. Completion of the report of examination will not delay the forwarding of the SP memo.

Once a bank has been assigned to the program, the SP memo should be prepared and forwarded at all subsequent examinations and visitations, regardless of the level of classified assets or improvements, until such time as the bank has been officially removed from the program in accordance with established procedures.

REGIONAL ADMINISTRATORS:

1. New banks added to the program are to be reported to the Washington Office by the Regional Administrator as soon as possible.
2. If during the Regional review process, it is determined that a bank should have been recommended for the program by the examiner but was not, the Region will initiate the necessary telephone and written communication to Special Projects.
3. The Regional Administrator, or his designee, and the examiner-in-charge must meet with the Board of Directors or a committee thereof, in conjunction with each examination of a bank in the program.
4. For banks in the program with assets exceeding $50 million, a copy of the report of examination will be sent to the bank and to the Special Projects Division at least ten days prior to the Board meeting.

5. The Regional Administrator's letter to the bank's Board of Directors, should include:
   a. A request that each Board member review the report;
   b. A summary of the major deficiencies disclosed in the report in an objective manner;
   c. A request that the Board prepare a specific plan of corrective action designed to correct the deficiencies of the bank as reflected in the examination report. The Board should be encouraged to discuss this plan at the meeting;
   d. If this letter is not incorporated in the report, it should include a paragraph that indicates: "This letter is supplemental to and part of the examination report requiring the attention of the Board of Directors. The letter and its contents should be treated with the same degree of confidentiality as the examination report."
6. Prior to meeting with the Board of Directors, the Regional Administrator will inform the Special Projects Division of the date and objectives of the Board meeting. When appropriate, a Special Projects staff member and/or a representative of the Enforcement and Compliance group will attend such meetings. Participation in the Board meeting by the Washington staff is desirable to the extent that is mutually agreeable to the Regional Administrator and the Washington Office.

7. The Regional Administrator should convey in writing the results of the Board meeting, and the bank should be requested to send a copy of the minutes to the Special Projects Division.
8. The Regional Administrator should require the Board to submit periodic reports concerning specific action taken by the bank to improve areas which, in the opinion of the Regional Administrator, warrant such attention.
9. Regional Administrators will continue to schedule frequent examinations and visitations of banks assigned to the program as they deem necessary. However, an examination projection of such banks will be completed by each region on a monthly basis. The form (Exhibit B) will be reproduced in the region as needed and forwarded to the attention of the Special Projects Division in sufficient time to arrive no later than five working days prior to the beginning of the month projected. Any amendments to the projection after it has been submitted, will be conveyed to the group via telephone communication.

EXHIBIT "A"

EXAMINER'S MEMO

SUMMARY OF PROBLEMS

Summarize your views of the bank's problems, taking into account all significant factors. Specific problems should be identified. Your recommendation as to possible solutions to the significant problems should be included in the narrative.

SUBSEQUENT EVENTS

Summarize any pertinent changes since the date of your examination. This would include the resignation of key officers or directors; declines in deposits; increases in loans or commitments to lend; proposed mergers, etc.

RECOMMENDED CORRECTIVE ACTIONS

Your positive, open views are needed in this section. You can be the most knowledgeable as to the causes of the bank's problems and how to solve them. Please state your views without reservation.

s/ National Bank Examiner

REGIONAL ADMINISTRATOR'S OPINION

Statements concurring or differing with those of the examiner should be made in this section.

s/ Regional Administrator

EXHIBIT "B"

____
(MONTH)

PRIORITY BANKS
EXAMINATION PROJECTION

Name of Bank and Location	Projected Starting Date (if under examination indicate starting date.)	Projected Completion Date	Examiner-in-Charge	Type of Examination General Specialized Special Supervisory

____
Regional Administrator

Working Draft of Uniform Interagency Bank Rating System **Attachment F**

Overview

The rating system is based upon an evaluation of five critical dimensions of a bank's operations that reflect in a comprehensive fashion an institution's financial condition, compliance with banking regulations and statutes and overall operating soundness. The specific dimensions that are to be evaluated are the following:

Capital adequacy
Asset quality
Management/Administration
Earnings
Liquidity

Each of these dimensions is to be rated on a scale of one through five in ascending order of performance deficiency. Thus "1" represents the highest and "5" the lowest (and most critically deficient) level of operating performance.

Each bank is accorded a summary or composite rating that is predicated upon the evaluations of the specific performance dimensions. The composite rating is also based upon a scale of one through five in ascending order of supervisory concern. In arriving at a composite rating, each financial dimension must be weighed and due consideration given to the interrelationships among the various aspects of a bank's operations. The delineation of specific performance dimensions does not preclude consideration of other factors that, in the judgment of the examiner or reviewer, are deemed relevant to accurately reflect the overall condition and soundness of a particular bank. However, the assessment of the specific performance dimensions represents the essential foundation upon which the composite rating is based.

Composite Rating

The five composite ratings are defined and distinguished as follows:

Composite 1

Banks in this group are sound institutions in almost every respect; any critical findings are basically of a minor nature and can be handled in a routine manner. Such banks, moreover, are resistant to external economic and financial disturbances and capable of withstanding the vagaries of business conditions more ably than banks with lower composite ratings.

Composite 2

Banks in this group are also fundamentally sound institutions but may reflect modest weaknesses correctable in the normal course of business. Such banks are stable and also able to withstand business fluctuations quite well; however, areas of weakness could develop into conditions of greater concern. To the extent that the minor adjustments are handled in the normal course of business, the supervisory response is limited.

Composite 3

Banks in this group exhibit a combination of weaknesses ranging from moderately severe to unsatisfactory. Such banks are only nominally resistant to the onset of adverse business conditions and could easily deteriorate if concerted action is not effective in correcting the areas of weakness. Consequently, such banks are vulnerable and require special supervisory attention. Overall strength and financial capacity, however, are still such as to make failure only a remote possibility.

Composite 4

Banks in this group have an immoderate volume of asset weaknesses, or a combination of other conditions that are unsatisfactory. Unless prompt action is taken to correct these conditions, they could reasonably develop into a situation that could impair future viability. A potential for failure is present but is not pronounced. Banks in this category require close supervisory attention and financial surveillance.

Composite 5

This category is reserved for banks whose conditions are worse than defined under No. "4" above. The volume and character of weaknesses are such as to require urgent aid from the shareholders or other sources. Such banks require immediate corrective action and constant supervisory attention. The probability of failure is high for these banks.

Performance Evaluation

As already noted, the five key performance dimensions -- capital adequacy, asset quality, management/administration, earnings and liquidity -- are to be evaluated on a scale of one to five. Following is a description of the graduations to be utilized in assigning performance ratings:

Rating No. 1 indicates strong performance. It is the highest rating and is indicative of performance that is significantly higher than average.

Rating No. 2 reflects satisfactory performance. It reflects performance that is average or above; it includes performance that adequately provides for the safe and sound operation of the bank.

Rating No. 3 represents performance that is flawed to some degree; as such, is considered fair. It is neither satisfactory nor unsatisfactory but is characterized by performance of below average quality.

Rating No. 4 refers to marginal performance and is significantly below average; if left unchecked, such performance might evolve into weaknesses or conditions that could threaten the viability of the institution.

Rating No. 5 is considered unsatisfactory. It is the lowest rating and is indicative that performance is critically deficient and in need of immediate remedial attention. Such performance by itself, or in combination with other weaknesses, threatens the viability of the institution.

Capital Adequacy

Capital is rated (1 through 5) in relation to: (a) the volume of risk assets; (b) the volume of marginal and inferior quality assets; (c) bank growth experience, plans and prospects; and (d) the strength of management in relation to (a), (b) and (c). In addition, consideration may be given to a bank's capital ratios relative to its peer group, its earnings retention and its access to capital markets or other appropriate sources of financial assistance.

Banks rated "1" or "2" are considered to have adequate capital although the former's capital ratios will generally exceed those of the latter. A "3" rating should be ascribed to a bank's capital position when the relationship of the capital structure to points (a), (b) or (c) is adverse even giving weight to management as a mitigating factor. In most instances such banks would have capital ratios below peer group averages. Banks rated "4" and "5" are clearly inadequately capitalized, the latter representing a situation of such gravity as to threaten viability and solvency. A "5" rating also denotes a bank that requires urgent assistance from shareholders or other external sources of financial support.

Asset Quality

Asset quality is rated (1 through 5) in relation to (a) the level, distribution and severity of classified assets; (b) the level and distribution of nonaccrual and reduced rate assets; (c) the adequacy of valuation reserves; and (d) demonstrated ability to adminster and collect problem credits. Obviously, adequate valuation reserves and a proven capacity to police and collect problem credits mitigate to some degree the weaknesses inherent in a given level of classified assets. In evaluating asset quality, consideration should also be given to any undue degree of concentration of credits or investments, the nature and volume of special mention classifications, lending policies, and the adequacy of credit administration procedures.

Asset quality ratings of "1" and "2" preclude supervisory concern. Both ratings represent sound portfolios although the level and severity of classifications of the latter generally exceed those of the former. A "3" asset rating indicates an appreciable degree of supervisory concern, expecially to the extent that current adverse trends augur potential future problems. Ratings "4" and "5" represent increasingly severe asset problems; rating "5", in particular, is indicative of an imminent threat to bank viability through the corrosive effect of severe asset problems on the level of capital support.

Management/Administration

Management's performance must be evaluated against virtually all factors considered necessary to operate the bank within accepted banking practices and in a safe and sound manner. Thus management is rated (1 through 5) with respect to (a) technical competence, leadership and administrative ability; (b) compliance with banking regulations and statutes; (c) ability to plan and respond to changing circumstances; (d) adequacy of and compliance with internal policies; and (e) depth and succession.

A "1" rating is indicative of management that is fully effective with respect to almost all factors and exhibits a responsiveness and ability to cope successfully with existing and foreseeable problems that may arise in the conduct of the bank's affairs. A "2" rating reflects some deficiencies but generally indicates a satisfactory record of performance in light of the bank's particular circumstances. A rating of "3" reflects performance that is lacking in some measure of competence desirable to meet the responsibilities of the situation in which management is found. Either it is characterized by modest talent when above-average abilities are called for, or it is distinctly below average for the type and size of bank in which it operates.

Thus, its responsiveness or ability to correct less than satisfactory conditions may be lacking. The "4" rating is indicative of a management that is generally inferior in ability compared to the responsibilities with which it is charged. A rating of "5" is applicable to those instances where incompetence has been demonstrated. In these cases, problems resulting from management weakness are of such severity that management must be strengthened or even replaced before sound conditions can be brought about.

Earnings

Earnings will be rated (1 through 5) with respect to (a) the ability to cover losses and provide for adequate capital; (b) earnings trends; (c) peer group comparisons; and (d) quality and composition of net income. Consideration must also be given to the interrelationships that exist between the dividend payout ratio, the rate of growth of retained earnings and the adequacy of bank capital. A dividend payout rate that is sufficiently high as to cause an adverse relationship to exist suggests conditions warranting a lower rating despite a level of earnings that might otherwise warrant a more favorable appraisal. Quality is also an important factor in evaluating this dimension of a bank's performance. Consideration should be given to the adequacy of transfers to the valuation reserve and the extent to which extraordinary items, securities transactions, and tax effects contribute to net income. Earnings rated "1" are sufficient to make full provision for the absorption of losses and the accretion of capital when due consideration is given to asset quality and bank growth.

Generally, banks so rated will have earnings well above peer group averages. A bank whose earnings are relatively static or even moving downward may receive a "2" rating provided its level of earnings is adequate in view of the considerations discussed above. Normally, banks so rated will have earnings that are in line with or slightly above peer group norms. A "3" should be accorded earnings that are not sufficient to make full provision for the absorption of losses and the accretion of capital in relation to bank growth. The earnings pictures of such banks may be further clouded by static or inconsistent earnings trends, chronically insufficient earnings, a high dividend payout rate or less than satisfactory asset quality. Earnings of such banks are generally below peer group averages. Earnings rated "4", while generally positive, may be characterized by erratic fluctuations in net income, the development of a downward trend, intermittent losses or a substantial drop from the previous year. Earnings of such banks are ordinarily substantially below peer group averages. Banks with earnings accorded a "5" rating should be experiencing losses or reflecting a level of earnings that is worse than defined in No. "4" above. Such losses represent an immenent threat to the bank's solvency through the erosion of capital.

Liquidity

Liquidity is rated (1 through 5) with respect to (a) the volatility of deposits; (b) reliance on interest-sensitive funds and frequency and level of borrowings; (c) technical competence relative to structure of liabilities; (d) availability of assets readily convertible into cash; and (e) access to money markets or other ready sources of cash. Ultimately, the bank's liquidity must be evaluated on the basis of its capacity to promptly meet the demand for payment of its obligation's and to readily fill the reasonable credit needs emanating from the communities which it serves. In appraising liquidity, attention should be directed to the bank's average liquidity over a specific time period as well as its liquidity position on any particular date. Consideration should be given, where appropriate, to the overall effectiveness of asset-liability management strategies and compliance with and adequacy of established liquidity policies. The nature, volume and anticipated usage of a bank's credit commitments are also factors to be weighed in arriving at an overall rating for liquidity.

A liquidity rating of "1" indicates a more than sufficient volume of liquid assets and/or ready and easy access on favorable terms to external sources of liquidity within the context of the bank's overall asset-liability management strategy. A bank developing a trend toward decreasing liquidity and increasing reliance on borrowed funds, yet still within acceptable proportions, may be accorded a "2" rating. A "3" liquidity rating reflects an insufficient volume of liquid assets and/or a reliance on interest-sensitive funds that is approaching or exceeds reasonable proportions for a given bank. Ratings of "4" and "5" represent increasingly serious liquidity positions. Banks with liquidity positions so critical as to consitute an imminent threat to continued viability should be accorded a "5" rating. Such banks require immediate remedial action or external financial assistance to allow them to meet their maturing obligations.

Response to Request #2

TABLE 1
NATIONAL BANKS REQUIRING SPECIAL SUPERVISORY ATTENTION
BY CATEGORY
($ Million)

	GROUP 5			GROUP 4			GROUP 3			TOTAL					
	No. of Banks	Assets	Deposits	No. of Banks	Assets	Deposits	No. of Banks	Assets	Deposits	No. of Banks	% Change	Assets	% Change	Deposits	% Change
12/31/75*	7	1,669	1,359	21	9,856	6,242	57	60,597	49,285	85	--------	72,122	--------	56,886	--------
12/31/76**	5	1,769	1,455	18	9,031	6,155	124	75,810	62,877	147	+73%	86,610	20%	70,487	24%
12/31/77***	7	1,289	1,019	45	10,668	7,125	207	88,257	71,074	259	+76%	100,214	16%	79,218	12%

* Asset and Deposit figures are as of latest 1975 Report of Examination.
** Asset and Deposit figures are as of December 31, 1976 Report of Condition.
*** Asset and Deposit figures are as of June 30, 1977 Report of Condition.

The significant increase in the number of National Banks Requiring Special Supervisory Attention in 1976 and 1977 can primarily be attributed to the new examination procedures, adoption of a new rating system in 1977, increased Washington influence which has improved consistency between Regions in the identification of these banks, and an increased OCC emphasis on early warning signals.

DEFINITION OF GROUP RATINGS:

Group 5 - Critical: Banks so characterized would normally exhibit a combination of weaknesses and financial trends which are pronounced to a point where the ultimate liquidity and solvency of the institution and its continuance as an independent entity are in serious question. The probability of failure is high for such banks, and they require immediate affirmative action to prevent imminent failure.

Group 4 - Serious: Those institutions of vital interest to the OCC which have unacceptable conditions which could impair future viability. The weaknesses and financial trends are not so severe as to threaten the immediate liquidity and solvency of the institution. A high potential for failure is present but is not pronounced.

Group 3 - Close Supervision: Those institutions of major interest to the OCC which are experiencing a combination of adverse factors requiring prompt corrective action. Overall strength and financial capacity are such as to make failure a remote possibility. Nevertheless, certain well-defined problems remain and require more than ordinary supervisory concern and monitoring.

TABLE 2

*NATIONAL BANKS PREVIOUSLY RATED GROUP 3 AND 4
UNDER RATING SYSTEM DISCONTINUED IN 1977
($ Millions)

Date of List	Total Number of National Banks	Total Assets of Nat. Banks	Total Dep. of Nat. Banks	GROUP 3						GROUP 4					
				No. of Banks	Assets	Deposits	% of Total-All Nat. Banks			No. of Banks	Assets	Deposits	% of All-Nat. Banks		
							No.	Assets	Deposits				No.	Assets	Deposits
12/70	4,348	323,359	269,690	104	3,058	2,685	2.4	.9	1.0	8	211	193	.2	.1	.1
6/71	4,366	354,327	299,254	112	5,002	4,311	2.6	1.4	1.4	8	328	294	.2	.1	.1
12/71	4,385	373,870	315,212	101	13,084	10,990	2.3	3.5	3.5	8	121	109	.2	--	--
6/72	4,417	398,278	333,843	105	13,558	11,399	2.4	3.4	3.4	5	93	83	.1	--	--
12/72	4,449	425,550	354,442	61	10,693	9,107	1.4	2.5	2.6	6	81	73	.1	--	--
6/73	4,495	466,265	388,516	56	11,601	9,472	1.2	2.5	2.4	8	131	116	.2	--	--
12/73	4,546	497,583	410,471	71	13,742	10,735	1.6	2.8	2.6	8	144	131	.2	--	--
6/74	4,612	545,290	444,084	110	119,603	97,397	2.4	21.9	21.9	11	225	202	.2	--	--
12/74	4,659	579,715	469,181	169	225,164	180,916	3.6	38.8	38.6	17	2,376	1,779	.4	.4	.4
6/75	4,703	599,803	489,624	251	249,725	201,919	5.3	41.6	41.2	25	3,527	2,901	.5	.6	.6
12/75	4,709	600,860	490,594	251	249,747	201,917	5.3	41.6	41.2	24	3,487	2,866	.5	.6	.6
6/76	4,748	657,234	545,663	256	227,201	182,543	5.4	34.6	33.5	27	5,987	4,672	.6	.9	.9

* A reconstruction based on examination reports of banks still in existence on 12/31/76.

Response to Request #3

TABLE 3

NATIONAL BANKS REQUIRING SPECIAL SUPERVISORY ATTENTION
RECONCILIATION 12-31-76 to 12-31-77

		CRITICAL	SERIOUS	CLOSE SUPERVISION	TOTAL
12-31-76	Number of Banks	5	18	124	147
	Total Assets ($ Million)	1,769	9,031	75,810	86,610
	Total Deposits ($ Million)	1,455	6,155	62,877	70,487
	Banks moving into each category between 12-31-76 and 12-31-77				
	a.) Number of banks	6	42	151	199
	b.) Total Assets ($ Million)	122	4,167	18,161	22,450
	c.) Total Deposits ($ Million)	108	3,481	15,430	19,019
	Banks moving out of each category between 12-31-76 and 12-31-77				
	a.) Number of banks	4	15	68	87
	b.) Total Assets ($ Million)	492	3,087	9,470	13,049
	c.) Total Deposits ($ Million)	419	2,477	8,104	11,000
12-31-77	Number of Banks	7	45	207	259
	Total Assets ($ Million)	1,289	10,668	88,257	100,214
	Total Deposits ($ Million)	1,019	7,125	71,074	79,218

The significant increase in the number of National Banks Requiring Special Supervisory Attention in 1976 and 1977 can primarily be attributed to the new examination procedures, adoption of a new rating system in 1977, increased Washington influence which has improved consistency between regions in the identification of these banks, and an increased emphasis on early warning signals.

Response to Request #6

NARRATIVE RESPONSE PERTAINING TO IMF AGREEMENTS

In the normal course of the examination of international activities of national banks, examiners evaluate international loan portfolios including loans to foreign governments and their related entities. These evaluations involve an assessment of each borrower's present financial condition as well as the borrower's prospects for reversal of adverse financial trends, if such exist. Therefore, the evaluations necessarily take into account a country's economic performance and adherence to the various covenants of disciplinary standby agreements as they relate to the borrowers prospective creditworthiness.

The Office of the Comptroller of the Currency does not believe it is within it's statutory authority to supervise agreements between foreign governments and international lending institutions. Therefore, we have not formulated a policy or established procedures to insure compliance by national banks with the terms of disciplinary standby agreements entered into by foreign countries with the International Monetary Fund.

A M E N D E D

Response to Request #'s 7&8

TABLE 4-A
NATIONAL BANKS WITH ASSETS OVER FIVE BILLION DOLLARS
AGGREGATE AND AVERAGE CLASSIFIED ASSETS
1973 - 1977
($ Millions)

YEAR	No. of Banks	Gross Capital Funds (GCF)	Substandard	Substandard as a % of GCF	Doubtful	Doubtful as a % of GCF	Loss	Loss as a % of GCF	Total Classified Assets	Total Classified Assets as % of GCF	Other Assets Especially Mentioned (OAEM)	OAEM as % of GCF
1973 - Aggregate	11	11,026	2,611	23.7%	753	6.8%	193	1.8%	3,557	32.3%	*	*
1973 - Average		1,002	237		68		18		323			
1974 - Aggregate	12	12,351	5,479	44.4%	1,317	10.7%	314	2.5%	7,110	57.6%	*	*
1974 - Average		1,029	457		110		26		593			
1975 - Aggregate	12	13,245	9,840	74.3%	3,224	24.3%	439	3.3%	13,503	101.9%	*	*
1975 - Average		1,104	820		269		37		1,125			
1976 - Aggregate	12	13,902	10,786	77.6%	3,625	26.1%	513	3.7%	14,924	107.4%	7,206	51.8%
1976 - Average		1,159	899		302		43		1,244		600	
1977 - Aggregate	15	16,661	10,335	62.0%	2,745	16.5%	394	2.4%	13,474	80.9%	6,484	38.4%
1977 - Average		1,111	689		183		26		898		432	

* Not Available

SOURCE: U.S. Comptroller of the Currency examination reports.

TABLE 4-B
NATIONAL BANKS WITH ASSETS BETWEEN ONE AND FIVE BILLION DOLLARS
AGGREGATE AND AVERAGE CLASSIFIED ASSETS
1973 - 1977
($ Millions)

YEAR	No. of Banks	Gross Capital Funds (GCF)	Substandard	Substandard as a % of GCF	Doubtful	Doubtful as a % of GCF	Loss	Loss as a % of GCF	Total Classified Assets	Total Classified Assets as % of GCF	Other Assets Especially Mentioned (OAEM)	OAEM as % of GCF
1973 - Aggregate	49	6,800	1,010	14.9%	186	2.7%	78	1.1%	1,274	18.7%	*	*
1973 - Average		139	21		4		2		26			
1974 - Aggregate	60	8,313	2,321	27.9%	344	4.1%	163	2.0%	2,828	34.0%	*	*
1974 - Average		139	39		6		3		47			
1975 - Aggregate	58	8,675	3,577	41.2%	624	7.2%	167	1.9%	4,368	50.3%	*	*
1975 - Average		150	62		11		3		75			
1976 - Aggregate	67	9,628	4,271	44.3%	680	7.1%	191	2.0%	5,142	53.4%	1,632	17.0%
1976 - Average		144	64		10		3		77		24	
1977 - Aggregate	74	10,134	3,601	35.5%	558	5.5%	138	1.4%	4,297	42.4%	1,259	12.4%
1977 - Average		137	49		7		2		58		17	

* Not Available

SOURCE: U.S. Comptroller of the Currency examination reports.

TABLE 4-C
NATIONAL BANKS WITH ASSETS UNDER 1 BILLION
AGGREGATE CLASSIFIED ASSETS, AVERAGE CLASSIFIED ASSETS &
CLASSIFIED ASSETS AS A PERCENTAGE OF GROSS CAPITAL FUNDS

1972 - 1977
(Millions)

0-100 Million	1972	1973	1974	1975	1976	6/30/77
Aggregate Classified Assets	691	756	1,036	1,468	1,619	1,570
Average Classified Assets	.2	.2	.3	.4	.4	.4
Classified Assets as a % of Gross Capital Funds	10%	10%	12%	16%	17%	17%
# of Banks	3,905	3,943	4,011	4,052	4,094	4,045
100 Million - 500 Million						
Aggregate Classified Assets	548	681	1,142	1,880	1,951	1,901
Average Classified Assets	2	2	3	4	4	4
Classified Assets as a % of Gross Capital Funds	10%	12%	18%	26%	26%	25%
# of Banks	336	375	412	470	485	498
500 Million - 1 Billion						
Aggregate Classified Assets	506	435	701	1,114	1,150	1,232
Average Classified Assets	8	7	11	17	16	17
Classified Assets as a % of Gross Capital Funds	15%	14%	20%	32%	31%	33%
# of Banks	62	62	64	64	73	72

Sources: U.S. Comptroller of the Currency examination reports.

EDP data base does not carry individual totals for substandard, doubtful and loss.

TABLE 4-D
NATIONAL BANKS REQUIRING SPECIAL SUPERVISION ATTENTION
AGGREGATE AND AVERAGE CLASSIFIED ASSETS
($ Millions)

	No. of Banks	Gross Capital Funds	Substandard	Doubtful	Loss	Total Classified Assets	Other Assets Especially Mentioned
1976							
0-100 Million	108						
Aggregate		241	175	35	14	224	41
Average		2.2	1.6	0.3	0.1	2.0	0.4
% of Gross Capital Funds			72.6%	14.5%	5.8%	92.9%	17.0%
100 Million to 1 Billion	26						
Aggregate		789	664	111	41	816	147
Average		30.3	25.5	4.3	1.6	31.4	5.6
% of Gross Capital Funds			84.2%	14.1%	5.2%	103.4%	18.6%
Over 1 Billion	13						
Aggregate		4,182	3,994	1,109	210	5,313	2,077
Average		321.7	307.2	85.3	16.2	408.7	159.8
% of Gross Capital Funds			95.5%	26.5%	5.0%	127.0%	49.7%
1977							
0-100 Million	204						
Aggregate		452	291	42	40	373	86
Average		2.2	1.4	0.2	0.2	1.8	0.4
% of Gross Capital Funds			64.4%	9.3%	8.8%	82.5%	19.0%
100 Million to 1 Billion	39						
Aggregate		1,013	814	122	54	990	193
Average		26.0	20.9	3.1	1.4	25.4	4.9
% of Gross Capital Funds			80.4%	12.0%	5.3%	97.7%	19.1%
Over 1 Billion	16						
Aggregate		4,767	4,265	844	162	5,271	1,857
Average		297.9	266.6	52.8	10.1	329.4	116.1
% of Gross Capital Funds			89.5%	17.7%	3.4%	110.6%	39.0%

SOURCE: U.S. Comptroller of the Currency examination reports.

Response to Request #'s 7&8

For immediate release January 16, 1978

Country Exposure Lending Survey

The results of a survey of foreign lending by large United States banks as of June 30, 1977 were made public today by the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Federal Reserve Board.

The survey was made to increase the information available on foreign lending, on a country-by-country basis. The data reported cover claims on foreign residents held at all domestic and foreign offices of 119 U.S. banks with assets of $1 billion or more.

Based on the experience of this survey, the bank regulatory agencies have instituted a semi-annual "Country Exposure Report" to begin with data for December 1977. Results of future reports will be published approximately four months after the reporting date.

Types of Loans

The information gathered in the survey concentrated on data concerning lending from a bank's offices in one country to residents of another country, or lending in a currency other than that of the borrower. These are known as cross-border or cross-currency loans.

Cross-border and cross-currency loans are those most closely associated with country risk. As shown in Table I, these claims totaled $164 billion on the reporting date. About 42 per cent of such foreign lending was accounted for by claims on residents of Switzerland and the Group of

Ten (G-10) developed countries. Another 20 per cent represented loans to residents of "other developed countries" and "offshore banking centers."[1] Cross-border and cross-currency claims on residents of non-oil producing less developed countries amounted to approximately $40 billion, or some 24 per cent of the total.

In addition, the banks reported $44 billion in local currency claims that were held by their offices in foreign countries on residents of the country in which the office was located. An example would be Deutsche Mark claims on German residents held by the German branch of the reporting U.S. bank. To a large extent, these local currency claims were matched by $37 billion in local currency liabilities due to local residents. Approximately 75 per cent of these claims were on residents of Switzerland and the G-10 countries.

Maturities

The survey provided for the first time comprehensive data on the type of customer and the maturity distribution of banks' claims on foreigners (Table 1). About 63 per cent of the reported cross-border and cross-currency claims had a maturity of under one year. Such short-term claims were especially prominent in the G-10 countries and the offshore banking centers where, combined, $64 billion out of $85 billion in claims matured in less than one year. This heavy concentration of short-term claims reflects the large volume of interbank lending in

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1/ Countries where multinational banks conduct a large international money market business.

these countries. Most such placements of deposits are for very short periods.

For most other groups of countries, short-term claims accounted for about one-half of total claims although the proportion varied significantly among individual countries.

Type of Borrower

With regard to type of customer, private nonbank sector lending was the largest, accounting for $63 billion. Other types of lending were placements with banks amounting to $59 billion, and loans to the public sector totaling $42 billion. This last category includes foreign central governments, their political subdivisions and agencies and commercial non-bank enterprises owned by government. This distribution varied significantly from country to country. Here also, most of the claims on banks were on those located in the G-10 countries and the offshore banking centers.

Guarantees

In Table II, information is provided on the cross-border and cross-currency claims that are guaranteed by residents of another country. Claims are reallocated from the country of residence of the borrower to another country on two grounds: First, claims on a bank branch located in one country where the head office is located in another country are allocated to the country of the head office. Since a branch is legally a part of the parent, claims on a branch are treated as being guaranteed by the head office. Second, claims on a borrower in one country which are formally guaranteed by a resident of another country are allocated to the latter country. These reallocations are thought to provide a better approximation of country exposure in the banks' portfolios than the unadjusted figures.

The results of the reallocations appear in the last column of Table II. Most of the shifts are accounted for by the transfer of claims on branches (and, where guaranteed, subsidiaries) of banks to their head offices ($25 billion out of $33 billion). In general, the reallocations primarily affected the offshore banking centers and some of the developed countries. For example, claims on the offshore banking centers decreased from $16.8 billion to $4.4 billion and claims on the United Kingdom decreased from $25 billion to $15.8 billion.

For most less developed countries, a relatively small portion of claims is externally guaranteed. The total shown for claims on foreigners by country of guarantor is about $150 billion or $14 billion less than the total for claims by country of borrower. This results from U.S. residents guaranteeing about $16.5 billion in claims on foreigners and foreign residents guaranteeing about $2.5 billion of claims on U.S. residents.

Commitments to Provide Funds for Foreigners

The survey also provided information on commercial letters of credit and other contingent claims on foreigners. The banks were asked to report such contingent claims only where the bank had a legal obligation to provide funds. As shown in Table III, the amounts reported total $42 billion, with 75 per cent of that total being on the private sector, including banks.

Use of the Data

The results of the survey need to be interpreted with some caution. The survey was experimental in nature, and it was recognized that all banks might not be able to furnish the requested information in the short period of time they were given. As a result, certain deviations from the instructions were permitted and in a limited number of cases, data were estimated for banks that were unable to report all items requested. In particular, some banks were permitted to report claims by "country of the guarantor" rather than by country of the borrower's residence. Gross claims on some countries (particularly the banking centers) may, as a result, be somewhat understated.

In addition, the reported contingent claims may be somewhat overstated, particularly as regards the private sector, because some banks included advised lines (where actual extensions of credit under such lines of credit might not be obligatory). In spite of these difficulties, it is believed that the reported data provide a representative profile of the foreign claims of U.S. banks.

Attachment

Table I Cross-border and Non-local Currency Claims by Residence of Borrower: June 1977
(in millions of dollars)

Country	Total Claims	Claims on: Banks (Placements)	Public borrowers	Other private	Maturity Distribution of Claims: One year and under	Over one year
G-10 and Switzerland						
Belgium/Luxembourg	4,212	3,601	90	521	3,848	365
France	6,840	4,757	692	1,392	5,430	1,410
Germany	4,048	1,661	232	2,155	2,983	1,065
Italy	5,055	2,177	1,717	1,161	2,812	2,243
Netherlands	2,764	1,934	117	714	2,424	341
Sweden	1,749	670	314	765	908	840
Switzerland	1,880	1,021	103	756	1,752	128
United Kingdom	25,138	17,363	2,475	5,301	19,090	6,049
Canada	5,117	3,179	680	1,258	4,152	965
Japan	11,754	1,777	289	9,688	7,462	4,292
	68,557	38,140	6,709	23,711	50,861	17,698
Non G-10 Developed Countries						
Austria	939	665	191	84	775	165
Australia	1,355	144	26	1,185	840	514
Finland	1,210	313	262	635	591	619
Greece	1,770	268	603	898	592	1,177
Iceland	86	1	38	47	11	74
New Zealand	417	26	199	193	143	275
Norway	1,844	121	254	1,469	605	1,238
Portugal	525	16	352	157	377	148
Spain	3,332	849	1,264	1,219	1,382	1,950
South Africa	2,201	47	1,186	968	937	1,263
Turkey	1,473	410	448	615	1,023	450
Denmark	1,434	252	467	715	651	783
Ireland	451	103	248	100	167	284
	17,037	3,215	5,538	8,285	8,094	8,940
Eastern Europe						
Bulgaria	416	81	324	12	223	194
Czechoslovakia	154	106	45	3	105	49
East Germany	708	63	592	54	282	427
Hungary	663	252	411	1	292	371
Poland	1,248	161	1,016	72	350	898
Romania	217	94	87	36	157	59
U.S.S.R.	1,592	464	1,112	16	653	940
Yugoslavia	984	15	409	560	171	813
	5,982	1,236	3,996	754	2,233	3,751

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Table I Cross-border and Non-local Currency Claims by Residence of Borrower: June 1977
(in millions of dollars)

Country	Total Claims	Claims on: Banks (Placements)	Public borrowers	Other private	Maturity Distribution of Claims: One year and under	Over one year
Oil-Exporting Countries						
Algeria	1,470	18	1,129	322	340	1,130
Ecuador	831	7	392	432	462	369
Indonesia	1,980	132	1,350	498	836	1,144
Iran	1,831	208	653	970	1,031	800
Iraq	88	-0-	76	12	20	68
Kuwait	399	219	37	143	360	39
Libya	128	42	78	9	124	4
Nigeria	70	-0-	14	56	66	4
Qatar	81	6	68	7	56	25
Saudi Arabia	336	40	32	264	291	45
United Arab Emirates	401	181	96	124	249	152
Venezuela	4,548	101	2,452	1,995	2,907	1,640
	12,163	954	6,377	4,832	6,742	5,420
Non-Oil Exporting Developing Countries						
Latin America and Caribbean						
Argentina	1,793	134	946	713	991	802
Bolivia	371	80	104	187	184	187
Brazil	10,588	331	3,748	6,510	3,321	7,267
Chile	620	38	300	281	401	218
Costa Rica	356	10	151	196	178	179
Dominican Republic	239	-0-	56	184	111	128
El Salvador	194	25	62	107	121	74
Guatemala	161	-0-	1	160	73	87
Honduras	181	20	29	132	119	61
Jamaica	251	20	154	77	74	177
Mexico	11,322	423	5,910	4,989	5,459	5,864
Nicaragua	433	14	187	232	268	165
Paraguay	24	-0-	1	23	13	11
Peru	1,904	33	1,328	543	922	982
Trinidad & Tobago	53	38	10	5	48	5
Uruguay	162	87	22	52	76	85
	28,652	1,253	13,009	14,391	12,359	16,292

Table I Cross-border and Non-local Currency Claims by Residence of Borrower: June 1977
(in millions of dollars)

Country	Total Claims	Claims on: Banks (Placements)	Claims on: Public borrowers	Claims on: Other private	Maturity Distribution of Claims: One year and under	Maturity Distribution of Claims: Over one year
Non-Oil Exporting Developing Countries (continued)						
Asia						
China (Taiwan)	2,319	112	1,198	1,009	1,541	778
India	208	11	82	115	55	153
Israel	662	112	249	301	504	158
Jordan	24	-0-	14	10	12	12
Korea (South)	3,216	293	929	1,993	2,274	942
Malaysia	596	82	319	194	224	372
Pakistan	60	33	16	11	57	3
Philippines	1,861	279	522	1,060	1,055	805
Thailand	669	80	97	492	531	138
	9,615	1,002	3,426	5,185	6,253	3,361
Africa						
Egypt	524	78	300	146	463	62
Ghana	21	-0-	-0-	21	8	13
Ivory Coast	271	-0-	138	133	51	220
Morocco	374	11	286	77	128	246
Sudan	174	1	168	5	89	85
Tunisia	55	5	35	15	42	13
Zaire	283	1	275	7	74	208
Zambia	179	-0-	164	15	100	78
	1,881	96	1,366	419	955	925
	40,148	2,351	17,801	19,995	19,567	20,578

Table I Cross-border and Non-local Currency Claims by Residence of Borrower: June 1977
(in millions of dollars)

Country	Total Claims	Claims on: Banks (Placements)	Claims on: Public borrowers	Claims on: Other private	Maturity Distribution of Claims: One year and under	Maturity Distribution of Claims: Over one year
Offshore Banking Centers						
Bahamas	5,905	5,762	12	130	5,822	83
Bahrain	565	537	10	18	554	11
Caymans	2,802	2,707	1	93	2,696	105
Hong Kong	1,286	443	53	789	958	328
Panama	1,896	738	321	837	1,151	746
Singapore	2,366	2,166	34	166	2,271	95
Liberia	1,889	10	15	1,864	430	1,459
Lebanon	125	6	-0-	119	63	62
	16,834	12,369	446	4,016	13,945	2,889
Miscellaneous						
Other Western Europe	222	68	69	85	111	111
Other Eastern Europe	1	-0-	-0-	1	1	-0-
Other Asia/Pacific	470	102	219	148	277	193
Other Middle East	191	82	67	43	152	39
Other Africa	370	2	300	68	164	206
Other Caribbean	1,029	44	84	901	461	569
Other Latin America	1,160	107	367	684	750	409
Other North America	44	-0-	23	21	16	28
	3,487	405	1,129	1,951	1,932	1,555
Grand Total	164,208	58,670	41,996	63,544	103,374	60,831

Table II Cross-border and Non-local Currency Claims on Foreigners by Country of Guarantor: June 1977
(in millions of dollars)

Country	Total claims (by residence)	Claims guaranteed by residents of other countries: on banks	Claims guaranteed by residents of other countries: on others	Total claims less guaranteed claims	Claims on residents of other countries guaranteed by residents of this country: on banks	Claims on residents of other countries guaranteed by residents of this country: on others	Total claims by country of guarantor
G-10 and Switzerland							
Belgium/Luxembourg	4,212	1,243	131	2,838	191	314	3,343
France	6,840	1,091	270	5,479	1,312	577	7,368
Germany	4,048	139	234	3,675	2,119	587	6,381
Italy	5,055	127	58	4,870	399	264	5,533
Netherlands	2,764	93	109	2,562	221	187	2,970
Sweden	1,749	-0-	9	1,740	48	141	1,929
Switzerland	1,880	79	158	1,643	598	272	2,513
United Kingdom	25,138	9,811	1,200	14,127	1,047	661	15,835
Canada	5,117	42	186	4,889	1,593	212	6,694
Japan	11,754	213	252	11,289	2,467	1,083	14,839
	68,557	12,838	2,607	53,112	9,995	4,298	67,405
Non-G-10 Developed Countries							
Austria	939	35	26	878	46	53	977
Australia	1,355	30	81	1,244	259	44	1,547
Finland	1,210	-0-	17	1,193	72	88	1,353
Greece	1,770	46	80	1,644	5	117	1,766
Iceland	86	-0-	-0-	86	-0-	-0-	86
New Zealand	417	1	8	408	51	12	471
Norway	1,844	2	134	1,708	63	83	1,854
Portugal	525	-0-	7	518	16	3	537
Spain	3,332	30	91	3,211	240	31	3,482
South Africa	2,201	26	38	2,137	63	34	2,234
Turkey	1,473	-0-	47	1,426	1	21	1,448
Denmark	1,434	2	90	1,342	22	84	1,448
Ireland	451	5	12	434	72	1	507
	17,037	177	631	16,229	910	571	17,710
Eastern Europe							
Bulgaria	416	-0-	2	414	-0-	-0-	414
Czechoslovakia	154	2	-0-	152	16	-0-	168
East Germany	708	-0-	-0-	708	2	1	711
Hungary	663	7	10	646	17	-0-	663
Poland	1,248	10	51	1,187	10	20	1,217
Romania	217	7	3	207	1	-0-	208
U.S.S.R.	1,592	7	33	1,552	89	5	1,646
Yugoslavia	984	-0-	89	895	-0-	18	877
	5,982	33	188	5,761	135	44	5,940

Table II Cross-border and Non-local Currency Claims on Foreigners by Country of Guarantor: June 1977
(in millions of dollars)

Country	Total claims (by residence)	Claims guaranteed by residents of other countries: on banks	Claims guaranteed by residents of other countries: on others	Total claims less guaranteed claims	Claims on residents of other countries guaranteed by residents of this country: on banks	Claims on residents of other countries guaranteed by residents of this country: on others	Total claims by country of guarantor
Oil-Exporting Countries							
Algeria	1,470	-0-	162	1,308	-0-	65	1,373
Ecuador	831	18	48	765	-0-	-0-	765
Indonesia	1,980	49	143	1,788	59	8	1,855
Iran	1,831	1	60	1,770	141	24	1,935
Iraq	88	-0-	-0-	88	-0-	-0-	88
Kuwait	399	3	24	372	15	10	397
Libya	128	-0-	-0-	128	2	-0-	130
Nigeria	70	-0-	3	67	-0-	7	74
Qatar	81	-0-	-0-	81	-0-	2	83
Saudi Arabia	336	16	50	270	29	60	359
United Arab Emirates	401	68	2	331	9	18	358
Venezuela	4,548	7	109	4,432	79	12	4,523
	12,163	162	601	11,400	334	206	11,940
Non-Oil Exporting Developing Countries							
Latin America and Caribbean							
Argentina	1,793	8	182	1,603	15	8	1,626
Bolivia	371	24	32	315	-0-	16	331
Brazil	10,588	97	579	9,912	526	63	10,501
Chile	620	-0-	16	604	1	-0-	605
Costa Rica	356	-0-	24	332	-0-	3	335
Dominican Republic	239	-0-	5	234	-0-	-0-	234
El Salvador	194	-0-	10	184	-0-	-0-	184
Guatemala	161	20	20	121	-0-	10	131
Honduras	181	-0-	9	172	-0-	3	175
Jamaica	251	-0-	8	243	9	16	268
Mexico	11,322	89	474	10,759	150	32	10,941
Nicaragua	433	-0-	7	426	2	1	429
Paraguay	24	-0-	-0-	24	-0-	-0-	24
Peru	1,904	17	30	1,857	7	78	1,942
Trinidad & Tobago	53	-0-	-0-	53	-0-	-0-	53
Uruguay	162	-0-	10	152	13	15	180
	28,652	255	1,406	26,991	723	245	27,959

Table II Cross-border and Non-local Currency Claims on Foreigners by Country of Guarantor: June 1977
(in millions of dollars)

Country	Total claims (by residence)	Claims guaranteed by residents of other countries on banks	Claims guaranteed by residents of other countries on others	Total claims less guaranteed claims	Claims on residents of other countries guaranteed by residents of this country on banks	Claims on residents of other countries guaranteed by residents of this country on others	Total claims by country of guarantor
Non-Oil Exporting Developing Countries (continued							
Asia							
China (Taiwan)	2,319	27	106	2,186	14	5	2,205
India	208	-0-	17	191	19	3	213
Israel	662	2	22	638	108	6	752
Jordan	24	-0-	2	22	32	7	61
Korea (South)	3,216	8	102	3,106	62	58	3,226
Malaysia	596	50	32	514	15	37	566
Pakistan	60	-0-	9	51	5	14	70
Philippines	1,861	5	53	1,803	25	16	1,844
Thailand	669	11	23	635	86	17	738
	9,615	103	366	9,146	366	163	9,675
Africa							
Egypt	524	-0-	27	497	2	1	500
Ghana	21	-0-	3	18	8	-0-	26
Ivory Coast	271	-0-	22	249	-0-	-0-	249
Morocco	374	-0-	20	354	11	19	384
Sudan	174	-0-	75	99	-0-	-0-	99
Tunisia	55	-0-	13	42	5	-0-	47
Zaire	283	-0-	112	171	-0-	-0-	171
Zambia	179	-0-	3	176	3	17	196
	1,881	-0-	275	1,606	29	37	1,672
	40,148	358	2,047	37,743	1,118	445	39,308

Table II Cross-border and Non-local Currency Claims on Foreigners by Country of Guarantor: June 1977
(in millions of dollars)

Country	Total claims (by residence)	Claims guaranteed by residents of other countries: on banks	Claims guaranteed by residents of other countries: on others	Total claims less guaranteed claims	Claims on residents of other countries guaranteed by residents of this country: on banks	Claims on residents of other countries guaranteed by residents of this country: on others	Total claims by country of guarantor
Offshore Banking Centers							
Bahamas	5,905	5,279	41	585	34	6	625
Bahrain	565	439	-0-	126	4	45	175
Caymans	2,802	2,558	21	223	2	4	229
Hong Kong	1,286	361	293	632	91	256	979
Panama	1,896	533	404	959	5	54	1,018
Singapore	2,366	1,799	57	510	33	7	550
Liberia	1,889	-0-	1,167	722	-0-	63	785
Lebanon	125	17	41	67	2	13	82
	16,834	10,986	2,024	3,824	171	448	4,443
Miscellaneous							
Other Western Europe	222	68	41	113	71	105	289
Other Eastern Europe	1	-0-	-0-	1	-0-	3	4
Other Asia/Pacific	470	24	27	419	5	33	457
Other Middle East	191	10	-0-	181	8	-0-	189
Other Africa	370	-0-	15	355	7	2	364
Other Caribbean	1,029	14	274	741	-0-	56	797
Other Latin America	1,160	37	23	1,100	29	20	1,149
Other North America	44	-0-	-0-	44	-0-	3	47
	3,487	153	380	2,954	120	222	3,296
Grand Total	164,208	24,707	8,478	131,023	12,783	6,234	150,040

Table III Contingent Cross-border and Non-local Currency Claims
by Country of Residence: June 1977 (in millions of dollars)

Country	Commitments under letters of credit to: Public borrowers	Commitments under letters of credit to: Banks and other private borrowers	Other Commitments to: Public borrowers	Other Commitments to: Banks and other private borrowers	Total Contingent Claims on: Public borrowers	Total Contingent Claims on: Banks and other private borrowers
G-10 and Switzerland						
Belgium/Luxembourg	-0-	113	22	594	22	707
France	41	222	676	1,808	717	2,030
Germany	9	183	54	1,754	63	1,937
Italy	12	489	174	119	186	608
Netherlands	-0-	146	1	776	1	922
Sweden	-0-	48	151	815	151	863
Switzerland	2	332	95	803	97	1,135
United Kingdom	22	783	275	2,968	297	3,751
Canada	-0-	177	49	282	49	459
Japan	1	306	38	2,385	39	2,691
	87	2,799	1,535	12,304	1,622	15,103
Non-G-10 Developed Countries						
Austria	-0-	16	103	168	103	184
Australia	-0-	441	131	381	131	822
Finland	35	42	305	154	340	196
Greece	112	252	174	518	286	770
Iceland	14	4	36	3	50	7
New Zealand	10	7	77	31	87	38
Norway	1	45	50	486	51	531
Portugal	16	9	2	35	18	44
Spain	37	140	84	895	121	1,035
South Africa	1	74	8	154	9	228
Turkey	79	81	10	52	89	133
Denmark	-0-	15	118	442	118	457
Ireland	50	17	68	102	118	119
	355	1,143	1,166	3,421	1,521	4,564
Eastern Europe						
Bulgaria	16	5	40	5	56	10
Czechoslovakia	2	-0-	6	10	8	10
East Germany	25	-0-	136	60	161	60
Hungary	-0-	3	94	29	94	32
Poland	58	29	145	20	203	49
Romania	8	-0-	139	2	147	2
U.S.S.R.	1	-0-	282	76	283	76
Yugoslavia	6	25	53	100	59	125
	116	62	895	302	1,011	364

Table III Contingent Cross-border and Non-local Currency Claims
by Country of Residence: June 1977 (in millions of dollars)

Country	Commitments under letters of credit to:		Other Commitments to:		Total Contingent Claims on:	
	Public borrowers	Banks and other private borrowers	Public borrowers	Banks and other private borrowers	Public borrowers	Banks and other private borrowers
Oil-Exporting Countries						
Algeria	91	44	95	25	186	69
Ecuador	72	102	89	71	161	173
Indonesia	14	62	149	229	163	291
Iran	99	64	93	322	192	386
Iraq	58	28	119	105	177	133
Kuwait	10	57	3	44	13	101
Libya	115	17	7	36	122	53
Nigeria	82	42	64	34	146	76
Qatar	8	34	27	6	35	40
Saudi Arabia	39	299	13	179	52	478
United Arab Emirates	38	85	76	87	114	172
Venezuela	193	245	251	787	444	1,032
	819	1,079	986	1,925	1,805	3,004
Non-Oil Exporting Developing Countries						
Latin America and Caribbean						
Argentina	81	99	139	330	220	429
Bolivia	22	28	47	97	69	125
Brazil	33	108	215	421	248	529
Chile	69	69	70	47	139	116
Costa Rica	14	15	10	13	24	28
Dominican Republic	43	56	30	133	73	189
El Salvador	5	14	5	16	10	30
Guatemala	6	4	39	141	45	145
Honduras	3	20	28	115	31	135
Jamaica	4	-0-	2	10	6	10
Mexico	101	100	228	698	329	798
Nicaragua	2	10	4	16	6	26
Paraguay	-0-	7	10	10	10	17
Peru	39	37	25	30	64	67
Trinidad & Tobago	19	2	43	3	62	5
Uruguay	19	11	43	12	62	23
	460	580	938	2,092	1,398	2,672

Table III Contingent Cross-border and Non-local Currency Claims by Country of Residence: June 1977 (in millions of dollars)

Country	Commitments under letters of credit to:		Other Commitments to:		Total Contingent Claims on:	
	Public borrowers	Banks and other private borrowers	Public borrowers	Banks and other private borrowers	Public borrowers	Banks and other private borrowers
Non-Oil Exporting Developing Countries (continued)						
Asia						
China (Taiwan)	238	158	344	478	582	636
India	70	44	-0-	24	70	68
Israel	4	20	50	107	54	127
Jordan	42	8	19	23	61	31
Korea (South)	56	244	122	471	178	715
Malaysia	40	19	53	122	93	141
Pakistan	41	43	3	115	44	158
Philippines	76	135	545	288	621	423
Thailand	11	116	8	206	19	322
	578	787	1,144	1,834	1,722	2,621
Africa						
Egypt	131	160	47	100	178	260
Ghana	18	15	25	20	43	35
Ivory Coast	12	20	47	25	59	45
Morocco	58	28	61	-0-	119	28
Sudan	18	1	5	-0-	23	1
Tunisia	14	8	18	17	32	25
Zaire	10	2	8	4	18	6
Zambia	28	12	1	19	29	31
	289	246	212	185	501	431
	1,327	1,613	2,294	4,111	3,621	5,724

Table III Contingent Cross-border and Non-local Currency Claims by Country of Residence: June 1977 (in millions of dollars)

Country	Commitments under letters of credit to:		Other Commitments to:		Total Contingent Claims on:	
	Public borrowers	Banks and other private borrowers	Public borrowers	Banks and other private borrowers	Public borrowers	Banks and other private borrowers
Offshore Banking Centers						
Bahamas	1	22	6	144	7	166
Bahrain	-0-	3	27	114	27	117
Caymans	-0-	-0-	-0-	2	-0-	2
Hong Kong	1	157	114	315	115	472
Panama	4	155	50	136	54	291
Singapore	2	88	84	268	86	356
Liberia	8	42	1	202	9	244
Lebanon	-0-	49	62	413	62	462
	16	516	344	1,594	360	2,110
Miscellaneous						
Other Western Europe	8	15	-0-	11	8	26
Other Eastern Europe	-0-	-0-	-0-	-0-	-0-	-0-
Other Asia/Pacific	72	41	69	105	141	146
Other Middle East	97	44	56	47	153	91
Other Africa	110	20	19	66	129	86
Other Caribbean	11	70	18	173	29	243
Other Latin America	16	48	60	116	76	164
Other North America	-0-	9	-0-	61	-0-	70
	314	247	222	579	536	826
Grand Total	3,034	7,459	7,442	24,236	10,476	31,695

TABLE 5-A
ALL NATIONAL BANKS OVER $1 BILLION
EXTENSIONS OF CREDIT TO DIRECTORS, OFFICERS, EMPLOYEES
AND THEIR INTERESTS
1977
($ Millions)

$1 BILLION to $5 BILLION (74 banks)	AMOUNT DIRECT	AMOUNT INDIRECT	TOTAL DIRECT AND INDIRECT
1. Obligations of directors, officers, employees, and their unincorporated companies.	1,387	127	1,514
2. Obligations of corporations in which directors, officers or employees individually or with members of their families own 10% or more of the outstanding stock.	642	83	725
3. Obligations of others or portions thereof, collateraled by securities issued by corporations in which directors, officers or employees individually or with members of their families own 10% or more.	27	0	27
4. Investments in stocks, bonds, or other obligations of corporations in which directors, officers, or employees individually or with members of their families own 10% or more.	0	0	0
SUB-TOTAL	2,056	210	2,266
LESS: Duplications within and between groups			128
TOTAL			2,138
OVER $5 BILLION (15 banks)			
1. Obligations of directors, officers, employees, and their unincorporated companies.	759	72	831
2. Obligations of corporations in which directors, officers, or employees individually or with members of their families own 10% or more of the outstanding stock.	180	5	185
3. Obligations of others or portions thereof, collateraled by securities issued by corporations in which directors, officers, or employees individually or with members of their families own 10% or more.	12	0	12
4. Investments in stocks, bonds, or other obligations of corporation in which directors, officers, or employees individually or with members of their families own 10% or more.	0	0	0
SUB-TOTAL	951	77	1,028
LESS: Duplications within and between groups			65
TOTAL			963

SOURCE: U.S. Comptroller of the Currency examination reports.

TABLE 5-B

NATIONAL BANKS REQUIRING SPECIAL SUPERVISORY ATTENTION
EXTENSIONS OF CREDIT TO DIRECTORS, OFFICERS, EMPLOYEES
AND THEIR INTERESTS
1977
($ Millions)

		AMOUNT DIRECT	AMOUNT INDIRECT	TOTAL DIRECT AND INDIRECT
	0-$100 Million (204 banks)			
1.	Obligations of directors, officers, employees and their unincorporated companies.	97	116	213
2.	Obligations of corporations in which directors, officers, or employees individually or with members of their families own 10% or more of the outstanding stock.	59	6	65
3.	Obligations of others or portions thereof, collateraled by securities issued by corporations in which directors, officers, or employees individually or with members of their families own 10% or more.	2	1	3
4.	Investments in stocks, bonds, or other obligations of corporations in which directors, officers, or employees individually or with members of their families own 10% or more.	3	0	3
	SUB-TOTAL	161	123	284
	LESS: Duplications within and between groups			117
	TOTAL			167
	$100 Million to $1 Billion (39 banks)			
1.	Obligations of directors, officers, employees, and their unincorporated companies.	94	48	142
2.	Obligations of corporations in which directors, officers, or employees individually or with members of their families own 10% or more of the outstanding stock.	117	11	128
3.	Obligations of others or portions thereof, collateraled by securities issued by corporations in which directors, officers, or employees individually or with members of their families own 10% or more.	3	0	3
4.	Investments in stocks, bonds, or other obligations of corporations in which directors, officers, or employees individually or with members of their families own 10% or more.	0	0	0
	SUB-TOTAL	214	59	273
	LESS: Duplications within and between groups			42
	TOTAL			231
	OVER $1 BILLION (16 banks)			
1.	Obligations of directors, officers, employees, and their unincorporated companies.	166	23	189
2.	Obligations of corporations in which directors, officers, or employees individually or with members of their families own 10% or more of the outstanding stock.	92	13	105
3.	Obligations of others or portions thereof, collateraled by securities issued by corporations or with members of their families own 10% or more of the outstanding stock.	7	0	7
4.	Investments in stocks, bonds, or other obligations of corporations in which directors, officers, or employees individually or with members of their families own 10% or more.	0	0	0
	SUB-TOTAL	265	36	301
	LESS: Duplications within and between groups			21
	TOTAL			280

SOURCE: U.S. Comptroller of the Currency examination reports.

Response to Request #16

TABLE 6

FORMAL ADMINISTRATIVE ACTIONS TAKEN BY THE COMPTROLLER PURSUANT TO THE CEASE AND DESIST PROVISIONS OF THE FINANCIAL INSTITUTIONS SUPERVISORY ACT OF 1966

12 UNITED STATES CODE 1818 (b)

YEAR	NUMBER OF ACTIVITIES
1971	3
1972	6
1973	10
1974	19
1975	23
1976	33
1977	56

NOTE: See attached for brief description of each action for 1977. Written summaries for years prior to 1977 were previously provided.

There were 97 formal administrative actions issued and still outstanding on December 31, 1977.

PROCEEDINGS BROUGHT BY THE COMPTROLLER PURSUANT TO THE PROVISIONS OF THE FINANCIAL INSTITUTIONS SUPERVISORY ACT OF 1966
12 UNITED STATES CODE §1818(b)
1977

APPENDIX

1. A letter Agreement was entered into with a bank which required corrections of past violations of law including reduction of loans in excess of the bank's legal lending limit, reduction of classified assets through collection or additional collateral, formulation of a capital improvement program, correction of credit file deficiencies, an increase in the loan valuation reserve, revisions in the loan policy, and implementation of a formal audit plan. In addition, the bank was to ensure that income from the sale of credit life insurance would not be improperly diverted from the bank's earnings.1/

2. An Agreement prohibited further violations of the legal lending limit to bank affiliates and required correction of past violations. The bank was required to eliminate criticized loans, and to draft new loan policies for the Regional Administrator's approval. Specific components to be included in the loan policies were listed, and the bank was required to secure adequate credit information on all loans. The Agreement required a Discount Committee, Examining and Audit Committee, and Compliance Committee to be appointed, and a plan for capital augmentation to be formulated.

3. An Agreement prohibited further violations of the bank's legal lending limit and forbid loans to officers and

1/ By memorandum from the Comptroller to all Regional Administrators, dated January 18, 1978, and as required by §501.3, ¶12 of the Comptroller's Handbook for National Bank Examiners, procedures have been established to ensure that the Comptroller's staff closely monitors compliance by banks with the provisions of all administrative proceedings. In addition, most Cease and Desist Orders and Agreements include provisions requiring periodic reporting by banks to this Office on their efforts and success in complying with such Orders and Agreements.

directors which violated 12 U.S.C. §375a. Past violations of law were to be corrected. It required the board to adopt specific loan policies and required approval of the Regional Administrator before their adoption. The Agreement specifically restricted the bank's president from self-dealing practices. It also required reductions of several large concentrations of credit, elimination of criticized assets, and the maintenance of an adequate loan valuation reserve. The Bank was required to submit written policies, for Regional approval, concerning its investments, trading account, and the collection of delinquent loans.

4. A Cease and Desist Order prohibited further violations of Truth-in-Lending laws and regulations requiring credit information. The bank was required to draft a new loan policy for Regional approval. It was also required to appoint a Discount Committee to review loans and an Examining and Audit Committee to ensure proper internal controls. The bank was ordered to eliminate its criticized assets, improve liquidity, and to inject capital into the bank. The Order also made provision for a new Chief Executive Officer and required review of the chairman's excessive salary.

5. An administrative hearing was held based on a Notice of Charges which charged that the bank had violated its legal lending limit, had made excessive out-of-trade area loans, had excessive criticized assets and past due loans, had failed to obtain adequate credit information and secure its collateral for various loans, and had inadequate capital and excessive problems with its internal controls. After six days of hearings, the Administrative Law Judge issued a recommended decision finding in favor of the Comptroller on all points. Based on the findings of fact and conclusions of law, the Comptroller issued a permanent Order to Cease

and Desist against the bank directing the bank to correct all of the problems addressed in the Notice of Charges. The bank has filed a Notice of Appeal with a United States Court of Appeals, but has not yet perfected the appeal.

6. A Cease and Desist Order required reduction of rate-sensitive certificates of deposit and improvement of liquidity, reduction of loans proportional to total deposits, and reductions of concentrations of credit. It prohibited further violations of the bank's legal lending limit and restricted overdrafts to officers. Past violations of law were to be corrected. New loan policies were required and were to be subject to Regional approval. Criticized assets were to be eliminated, and a Compliance Committee was ordered to oversee implementation of the provisions of the Order.

7. An Agreement prohibited further violations of the bank's legal lending limit and restricted overdrafts to officers as well as the purchase of illegal investment securities (12 U.S.C. §24). Past violations of law were to be corrected. It required a written investment policy subject to Regional approval, the elimination of criticized assets, reduction of concentrations of credit, and a written program for internal control. The Agreement forbid payments to management resulting from credit life insurance sales and also limited loans to certain individuals.

8. An Agreement prohibited further violations of the bank's legal lending limit and improper loans to executive officers. Past violations of law were to be corrected. The bank was to hire a new Chief Executive Officer to eliminate classified loans and to formulate a new loan policy for approval by the Regional Administrator. Past due loans were to be collected and collateral exceptions eliminated.

Liquidity and the loan valuation reserves also were to be increased. Written earnings and investment programs were requested. Additional articles addressed capital and internal control procedures. Noncompliance with this Agreement resulted in a second Agreement with subsequent new owners of the bank which addressed the bank's noncompliance, the self-dealing transactions of the new owners and the continued deterioration in the bank's condition. The Agreement required capital, a budget, a comprehensive external audit, a schedule of salaries and bonuses for the Regional Administrator's approval, and reimbursement of the unwarranted expenses charged to the bank for housing and for charter applications for other banks.

9. Six Agreements were entered into with six separate banks and Boards of Directors which prohibited extensions of credit to certain shareholders of the holding company and prohibited payment of management fees to the bank's holding company without prior Regional approval. An investment committee was required for each bank. The authority of certain individuals at these banks was curtailed. All six agreements were modified to prohibit the payment of dividends by any of the banks without the prior written approval of the Regional Administrator. An additional, subordination agreement between one of these banks and the holding company required an immediate subordinated deposit by the holding company to partially recapitalize the bank.

10. An Agreement required a new Chief Executive Officer subject to Regional approval, a budget, improved internal control procedures, and an increase in equity capital. It prohibited the bank from paying dividends without Regional approval, and required analysis of the valuation reserve, elimination of criticized assets and a written investment policy.

11. An Agreement required the Board to elect an executive committee which excluded directors whose loans were criticized, to raise equity capital for the bank, and to refrain from further violations of the bank's legal lending limit and of limits on loans to affiliated insiders. Past violations of law were to be corrected. It forbid the payment of dividends without Regional approval and required reduction of criticized assets and concentrations of credit.

12. An Agreement prohibited further violations of the bank's legal lending limit and required correction of past violations. It also required the elimination of criticized assets and the acquisition of credit information and adequate collateral for all loans. The bank was to hire a new Chief Executive Officer and a new operations officer, subject to Regional approval, and the Board of Directors was required to submit a new loan policy and an investment policy for Regional review. An outside auditor was to be hired to evaluate internal control procedures, and a new internal control plan was to be submitted for Regional approval. Payment of management fees was prohibited, as was diversion of credit life insurance sale proceeds to officers of the bank. The bank was further required to correct deficiencies in its Trust Department, to reduce concentrations of credit, to develop an operating budget, and to secure additional capital.

13. After issuance of a Notice of Charges and a Temporary Order to Cease and Desist, a permanent Order to Cease and Desist was consented to by the bank. The permanent Order directed the bank to refrain from making loans in excess of its legal lending limit, to stop making loans to its affiliates in excess of the limits set by law, to make loans to executive officers in compliance with the statutory provisions, and to accept drafts or bills of exchange only as

prescribed by 12 U.S.C. §372. Past violations of law were to be corrected. The Order also directed the bank to procure statements of its director's interests, limited its transactions with certain, specific entities, restricted the payment of dividends and required the bank to hire a new chief executive officer. The bank was also to adopt new lending policies, define its position regarding overdrafts, formulate a capital improvement program, evaluate and increase its valuation reserve for loan losses, obtain adequate credit information and secure its collateral on all loans, maintain current information on file concerning its affiliates, provide adequate fidelity insurance coverage and reduce fees paid to its directors to a reasonable level.

14. An Agreement was entered into with an individual and a bank, which restricted the individual's participation in the management of the bank and limited his financial dealings with that bank.

15. An Agreement prohibited further violations of the bank's legal lending limit and required correction of past violations. It also required that a written loan policy be submitted for Regional approval, and that a new lending officer be hired subject to Regional approval. In addition, the Board was to eliminate criticized assets, to obtain satisfactory credit information and collateral for all loans, and to correct internal control deficiencies.

16. An Agreement, prohibited further violations of the bank's legal lending limit and required correction of past violations. It also required written loan and overdraft policies to be submitted for Regional approval, criticized assets to be eliminated, a new Chief Executive Officer to be hired subject to Regional approval, a complete external audit to be performed and satisfactory credit information and collateral for all loans to be obtained.

17. An Agreement prohibited violations of the bank's legal lending limit and of laws governing borrowing by bank affiliates. Past violations of law were to be corrected. It also required statements of directors' business interests to be filed in accordance with 12 C.F.R. Part 23 and enforcement of Federal Reserve Board Regulation U. Preferential loans to bank directors and officers and their interests were forbidden, and the Board was directed to collect loans extended to certain individuals. In addition, an Executive Committee was to approve all loans above $25,000, transactions in international finance were restricted, and the Board was to hire a new Chief Executive Officer subject to Regional approval.

18. A Cease and Desist Order, ordered the bank to submit both a general investment policy and an investment trading policy for Regional approval, and required accurate valuation of foreign government bonds held by the bank. The bank was forbidden to trade in securities until these actions were taken.

19. A Cease and Desist Order forbid further violations of the bank's legal lending limit, required the bank to conform with state laws in accepting state deposits, and required the bank to adhere to its contract in handling deposits for the U. S. Customs Service. Past violations of law were to be corrected. Criticized loans to directors were to be removed. The bank's liquidity position was to be improved and equity capital was to be injected. The Order required reductions of large concentrations of credit, collection of past due loans, and acquisition of satisfactory credit information for all loans.

20. An Agreement prohibited the bank from exceeding its legal lending limit and required correction of past viola-

tions. It also required a liquidity program and elimination of criticized assets. The bank was prohibited from permitting any overdrafts and was required to inject new equity capital.

21. A Cease and Desist Order prohibited the bank from extending credit to certain individuals and their interests. It also limited the authority of the bank's president. It further required the Board to eliminate criticized assets and mandated accurate accounting for interest accrual accounts.

22. An Agreement prohibited the bank from making further loans in violation of its legal lending limit and from violating laws governing loans to bank affiliates. Correction of past violations of law was required. In addition, the Board was required to raise additional capital, to evaluate officers' salaries, to eliminate criticized assets, and to obtain satisfactory credit information on all loans. An external audit was necessary to remedy internal control deficiencies.

23. A Cease and Desist Order prohibited further violations of the bank's legal lending limit and required correction of past violations. Loans to specific individuals and their interests were restricted. The Agreement also limited directors' fees, required corrections of violations of law involving loans to directors and officers, and mandated reimbursement to the bank by the Board of improper expenses. The Order also forbid acquisition of fixed assets, maintenance of certain large correspondent accounts with other banks, and violation of the Bank Secrecy Act. Removal of criticized assets was required, as was acquisition of satisfactory credit information on all loans. The bank was prohibited from lending outside its trade area, diverting proceeds from credit life insurance sales to its officers,

hiring additional officers, or increasing officers' salaries without Regional approval. Written investment and capital augmentation programs were to be submitted for Regional approval.

24. An Agreement required a new Chief Executive Officer, training of bank officers, upgrading of the bank's electronic data processing system, securing of additional capital, and removal of classified loans. Improved liquidity was required, and a new internal control policy was to be implemented. The Agreement also required satisfactory credit information for loans and an increase in the loan valuation reserve.

25. An Agreement prohibited further violations of the bank's legal lending limit, excess credit or overdrafts to affiliates, and the purchase of government bonds. Past violations of law were to be corrected. It also required removal of classified loans, acquisition of satisfactory credit information for all loans, and a loan policy to be submitted to the Regional Administrator for approval. The bank was to secure additional capital, refrain from paying dividends without Regional approval, and improve its liquidity position. A review of management was required, as was a program to improve internal control procedures.

26. A Notice of Charges and a Temporary Order to Cease and Desist was served which prohibited the bank's chief executive officer from making loans, authorizing expenditures of bank funds, investing bank funds, and participating in the management of the bank. The Board of Directors subsequently consented to enter into a permanent Cease and Desist Order.

27. An Agreement was entered into under which certain depositors agreed to subordinate their rights to those of other creditors at the bank for a certain period of time in order to strengthen the capital position of the bank.

28. An Agreement required the bank to raise capital through the use of subordinated certificates of deposit and required the bank's compliance with regulations governing HEW-guaranteed student loans. A new Chief Executive Officer was to be hired, subject to Regional approval.

29. A Cease and Desist Order required the bank to review the adequacy of its management and to raise new equity capital. Criticized assets were to be eliminated and the loan valuation reserve was to be increased. The Order required a new loan policy to be submitted for Regional approval, past due loans to be collected, satisfactory credit information for loans to be acquired, and internal control deficiencies to be corrected.

30. A Cease and Desist Order required the removal of loans to certain individuals and forbid loans to certain other individuals and their interests. It also prohibited further violations of the bank's lending limit and required conformance with 12 U.S.C. §375a in loans to insiders. Past violations of law were to be corrected. The Order also prohibited bank employees from acting as shareholder proxies and required directors to file financial statements. It further required adherence to state law in loans made to municipalities, a full external audit of the bank, formulation of a plan to raise additional capital, a review of management salaries, a new lending policy, elimination of criticized loans and correction of deficiencies in the bank's electronic data processing system. Payment of dividends without prior Regional approval was also forbidden.

31. An Agreement, required this bank to hire a new Chief Executive Officer, subject to Regional approval, to formulate a new budget, and to correct deficiencies in its internal control system. The bank was also required to increase its

loan valuation reserve to reduce large concentrations of credit and to eliminate criticized assets. The Agreement prohibited the bank from investing in speculative precious metals or foreign securities, and mandated close supervision of HEW-guaranteed student loans.

32. A Notice of Charges and Temporary Order to Cease and Desist required the bank to stop violating the bank's legal lending limit and making improper loans to bank officers. The Order required a reduction of classified loans to insiders. The bank, after unsuccessfully seeking a Federal District Court Temporary Restraining Order against the Temporary Cease and Desist Order, consented to a permanent Cease and Desist Order.

33. An Agreement prohibited further violations of the bank's legal lending limit and required correction of past violations of law. Compliance with the Truth-in-lending law and accompanying regulations was also required. A new Chief Executive Officer was to be hired subject to Regional approval, and the bank was required to raise additional capital. Statements of directors' business interests were to be filed and satisfactory credit information and collateral for all loans, were to be obtained. The Agreement further required an increase in the bank's loan valuation reserve, a budget, fidelity insurance, and the elimination of criticized loans, particularly those loans to directors, executive officers and their interests. Internal control deficiencies were to be corrected, a Loan and Discount Committee established, and a Compliance Committee formed to implement and monitor adherence to the requirements of the Agreement.

34. A Cease and Desist Order, prohibited lending limit violations and required loans to officers to conform with the requirements of applicable law. Loans to certain direc-

tors were to be removed and extensions of credit to certain individuals and their interests were prohibited. The Order also required that two directors be relieved of all decision-making authority, and that all expenses paid by the bank for the personal benefit of directors be repaid. A new Chief Executive Officer was to be hired, subject to Regional approval. A new loan policy was to be formulated and the bank was instructed to limit extensions of credit to its trade area. In addition, criticized assets were to be eliminated, liquidity to be increased, payment of dividends was prohibited unless approved by the Region, and internal control deficiencies were to be corrected.

35. An Agreement required that a new Chief Executive Officer be hired, that additional capital be provided, that credit extended to directors and their interests be limited, that past violations of law be corrected, that dividend payments be restricted, that a program to improve earnings be adopted, that the bank increase its loan valuation reserve, and that an internal auditor be hired for the bank's staff.

36. A letter Agreement required the bank to hire a new Chief Executive Officer and prohibited the Chairman of the Board from participating in the bank's operations. An investment committee was charged with developing an investment policy subject to Regional approval, and a lending policy covering specific areas. Criticized assets were to be eliminated, and an adequate loan valuation reserve established. A liquidity improvement program and audit program were to be submitted for Regional approval.

37. An Agreement prohibited further legal lending limit violations and required correction of past violations. Additional capital was to be raised, the payment of dividends was prohibited except with Regional approval and the loan

valuation reserve was to be increased. The Agreement required the bank to improve its liquidity position, to eliminate criticized loans, to develop a budget, and to evaluate management salaries. Satisfactory credit information for all loans was required, as was the development of a plan to improve internal controls.

38. An Agreement required an asset and liability management plan to be submitted to the Regional Administrator. The bank was also to eliminate criticized loans, to appoint an Executive Committee composed of non-officers, to amend its lending policies, to define its trade area, to increase its loan valuation reserve, and to evaluate officers' salaries. The Agreement further required the bank to adopt an investment policy, to establish a personnel committee, and to develop a policy for supervision of internal operations.

39. An Agreement required the bank to hire a new Chief Executive Officer and to formulate an earnings program. Further violations of the bank's legal lending limit were prohibited, and corrections of past violations were required. Additional capital was to be provided and criticized loans were to be eliminated. The Agreement required a new loan policy, the obtaining of satisfactory credit information and collateral for loans.

40. An Agreement required Regional approval of a new president to be hired by the bank, quarterly review of the bank's loan valuation reserve, and elimination of criticized assets. Liquidity was to be increased, a new loan policy was required, and a financial forecast was to be submitted for Regional review. Dividends were prohibited unless approved by the Region and a compliance program related to consumer laws was to be established.

41. An Agreement prohibited loans to certain individuals and their interests, prohibited the bank's President from granting loans over $25,000 except with Board approval, and forbid the bank's dealings with other entities. Violations of the lending limit were prohibited and correction of past violations of law required.

42. An Agreement prohibited violations of the bank's legal lending limit and violations of credit information regulations. Past violations were required to be corrected. Additional equity capital was required, as was Regional approval prior to the payment of dividends. Liquidity was to be improved and the Board was required to submit a new loan policy for Regional approval. The Agreement further required the Board to reduce criticized assets and to maintain satisfactory credit information for all loans. An audit committee was to be established, and the bank was required to pursue claims against its bonding company.

43. An Agreement dealt with numerous bank problems, primarily involving insider abuses. Among the problems addressed were violations of the bank's legal lending limit; the necessity for an external audit relating to salaries paid, leasing of personal property and preferential loans to insiders; establishment of a Compliance Committee to secure restitution to the bank in various areas; sale of a luxury automobile purchased by the bank for a director; general investigation of leasing operations at the bank; definition of the bank's trade area; and reductions of concentrations of credit. Internal control deficiencies were to be corrected, the bank was prohibited from paying dividends without Regional approval, and new loan policies were to be developed and submitted for Regional review.

44. An Agreement with another bank, controlled by the same individual as the bank discussed in Paragraph 43, above,

dealt with problems substantially similar to those described in Paragraph 43.

45. An Agreement required the bank to hire a new Chief Executive Officer, subject to Regional approval, to review its management structure and to raise new equity capital. It stopped the payment of dividends unless approved by the Region and required the bank to develop an earnings program. Criticized loans were to be eliminated and the loan valuation reserve was to be increased.

46. An Agreement, prohibited further violations of the bank's legal lending limit, and required correction of past violations. Loans to specific individuals were to be removed from the bank, and the bank was required to bring loans to officers into compliance with 12 U.S.C. §375a. An external CPA audit was required to study loans to directors, payments of questionable bank expenses, salaries to officers, and legal fees paid by the bank. The Agreement required the bank to secure interest payments lost through loans granted at preferential interest rates, secure restitution of excessive legal fees, and to adjust salaries of officers commensurate with services performed. The loan valuation reserve was to be increased, as was capital, and the payment of dividends was prohibited except with Regional approval.

47. A Cease and Desist Order required the Board to provide a new Chief Executive Officer subject to Regional veto, to formulate an earnings program, and to stop and correct all violations of the bank's legal lending limit. An overdraft policy was required, as was elimination of criticized assets. Collection of delinquent loans and current credit information on all loans were required, as was an increase in the loan valuation reserve. The Order required additional equity capital and reductions of a large concentration of credit.

Better internal control procedures and a new loan policy were to be adopted, both subject to Regional approval. An oversight committee was to monitor compliance with the Order.

48. An Agreement required formulation of a program to improve earnings, development of a loan pricing policy, an increase in the bank's loan valuation reserve, a comprehensive audit, modification of the bank's lending policies, a program to eliminate criticized assets, justification for the bank's computer system and restrictions on the bank's future investments in fixed assets.

49. A permanent Cease and Desist Order was consented to after the issuance of a Notice of Charges and a Temporary Cease and Desist Order. This permanent Order prohibited further violations of the bank's lending limit and required the bank to conform to 12 U.S.C. §375a in making loans to insiders. Past violations of law were to be corrected. In addition, correspondent accounts were to be limited, and the Order directed the Board to withdraw all lending authority from two executive officers. A new chief executive officer was to be hired and a review of director's expenses charged to the bank was ordered. This Order also required reimbursement of improperly paid expenses, payment of interest on insider overdrafts, and elimination of bonuses paid to Directors. The bank was prohibited from extending credit to specified individuals and their related interests, and from giving preferential interest rates on loans to insiders. Liquidity was to be increased, as was the loan valuation reserve, and new capital was to be raised.

50. An administrative hearing was held in 1976 concerning the issuance of a final Cease and desist Order. After receiving a favorable recommendation from the Administrative

Law Judge, a permanent Cease and Desist Order was issued which required the Board to reimburse the bank for excessive salaries paid to the bank's two top officers. The case was appealed to the United States Court of Appeals for the Eighth Circuit by the bank. Oral argument was heard by the Court and a favorable decision was rendered which affirmed the Comptroller's power to require reimbursement. The opinion also held that the testimony of three national bank examiners and the fact that the bank had repeatedly ignored warnings from the Comptroller over an extended period of time to correct its criticized practices constituted substantial evidence in support of the Comptroller's Order to Cease and Desist. Consequently, the Order could only be altered if it was shown to have been issued in an arbitrary or capricious manner, which the Court did not find was the case.

51. During 1977, this Office also terminated or removed two (2) Cease and Desist Orders and seven (7) Agreements in cases where banks had complied with their provisions or circumstances had materially altered the relevance of their provisions in some other way.

TABLE 7-A
VIOLATIONS OF LAW OR REGULATION
NATIONAL BANKS WITH ASSETS OVER ONE BILLION DOLLARS
1977

	12 USC 29	12 USC 82	12 USC 84	12 USC 371c	12 USC 375a	12 CFR 23	12 CFR 217	12 CFR 221	12 CFR 226	31 CFR	OTHER
$1 BILLION TO $5 BILLION (74 banks)											
Total Number of violations per most recent Commercial Report of Examination	65	1	10	21	142	123	14	31	152	34	505
OVER $5 BILLION (15 banks)											
Total Number of violations per most recent Commercial Report of Examination	26	1	2	14	1	54	4	2	18	0	127

SOURCE: U.S. Comptroller of the Currency Commercial Reports of Examination.

SUBJECT HEADINGS FOR LAWS ITEMIZED ABOVE:

- 12 USC 29 = Authority to hold real estate.
- 12 USC 82 = Indebtedness of national banks.
- 12 USC 84 = Lending limits.
- 12 USC 371c = Loans to affiliates.
- 12 USC 375a = Loans to executive officers.
- 12 CFR 23 = Required statements of business interest of directors and principal officers.
- 12 CFR 217 = Interest on deposits.
- 12 CFR 221 = Credit by banks for the purpose of purchasing or carrying margin stocks.
- 12 CFR 226 = Truth in lending.
- 31 CFR = Reports of currency and foreign transactions.

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TABLE 7-B
VIOLATIONS OF LAW OR REGULATION
NATIONAL BANKS REQUIRING SPECIAL SUPERVISORY ATTENTION
1977

	12 USC 29	12 USC 82	12 USC 84	12 USC 371c	12 USC 375a	12 CFR 23	12 CFR 217	12 CFR 221	12 CFR 226	31 CFR	OTHER
0 - $100 MILLION (204 banks)											
Total Number of violations per most recent Commercial Report of Examination	46	3	588	117	170	346	197 A/	137 B/	56 C/	1408 D/	1085 E/
$100 MILLION to $1 BILLION (39 banks)											
Total Number of violations per most recent Commercial Report of Examination	52	2	54	180	40	76	33	8	2	25	144
OVER $1 BILLION (16 banks)											
Total Number of violations per most recent Commercial Report of Examination	14	1	4	8	61	55	1	29	130	29	183

SOURCE: U.S. Comptroller of the Currency Commercial Reports of Examination.

A/ Report of 1 bank indicates "numerous". Counted as only 1 violation.
B/ Report of 1 bank indicates "numerous". Counted as only 1 violation.
C/ Reports of 3 banks indicate "numerous". Counted as only 1 violation for each bank.
D/ Reports of 15 banks indicate "numerous". Counted as only 1 violation for each bank.
E/ Reports of 3 banks indicate "numerous". Counted as only 1 violation for each bank.

SUBJECT HEADINGS FOR LAWS ITEMIZED ABOVE:

12 USC 29 = Authority to hold real estate.
12 USC 82 = Indebtedness of national banks.
12 USC 84 = Lending limits.
12 USC 371c = Loans to affiliates.
12 USC 375a = Loans to executive officers.
12 CFR 23 = Required statements of business interest of directors and principal officers.
12 CFR 217 = Interest on deposits.
12 CFR 221 = Credit by banks for the purpose of purchasing or carrying margin stocks.
12 CFR 226 = Truth in lending.
31 CFR = Reports of currency and foreign transactions.

Response to Request #18

INDEX

FAILED NATIONAL BANKS

1973 - 1977

NAME	DATE DECLARED INSOLVENT
Skyline National Bank Denver, Colorado	March 26, 1973
First National Bank of Eldora Eldora, Iowa	October 5, 1973
U.S. National Bank of San Diego San Diego, California	October 18, 1973
Franklin National Bank New York, New York	October 8, 1974
Swope Parkway National Bank Kansas City, Missouri	January 3, 1975
American City Bank & Trust Company, N.A. Milwaukee, Wisconsin	October 21, 1975
Hamilton National Bank of Chattanooga Chattanooga, Tennessee	February 16, 1976
Coronado National Bank Denver, Colorado	June 25, 1976
Republic National Bank of Louisiana New Orleans, Louisiana	July 29, 1977

See attached for brief descriptions.

FAILED BANKS

12/31/72 - 12/31/77

1. Name of Bank - Skyline National Bank, Denver, Colorado

2. Date Bank Declared Insolvent - 3-26-73

3. Total Assets on Date of Declaration - $6,527,124

TOTAL ASSETS & DEPOSITS FOR FIVE YEARS PRECEEDING FAILURE (thousands)

	12/31/68	12/31/69	12/31/70	12/31/71	12/31/72
4. Assets	Chartered			642	6,399
Deposits	12/29/71			48	5,370

5. Summary of facts leading to failure:

Due to imprudent lending policies the bank began to suffer significant loan losses shortly after it was chartered. During February and March, 1973, liquidity deteriorated to the extent that the bank was able to meet its obligations only by the sale of loans. The bank was declared insolvent on 3/26/73 when loan losses were determined to exceed its capital funds by $149,000 and it became apparent that the bank would not be able to meet future deposit withdrawals.

FAILED BANKS

12/31/72 - 12/31/77

1. Name of Bank - **First National Bank of Eldora, Eldora, Iowa**

2. Date Bank Declared Insolvent - 10-5-73

3. Total Assets on Date of Declaration - $8,071,962

TOTAL ASSETS & DEPOSITS FOR FIVE YEARS PRECEEDING FAILURE (thousands)

	12/31/68	12/31/69	12/31/70	12/31/71	12/31/72
4. Assets	4,831	5,244	5,384	5,957	8,292
Deposits	4,459	4,742	4,860	5,421	7,740

5. Summary of facts leading to failure:

Self dealing and other irregular activities by the President involving the payment of cash items and loans to a related company caused the bank to sustain losses of approximately $1.3MM, in excess of the bank's capital. When the Directorate was unable to provide the necessary additional capital, the bank was placed into receivership and sold by the F.D.I.C. to another group of investors.

FAILED BANKS

12/31/72 - 12/31/77

1. Name of Bank - U.S. National Bank of San Diego, San Diego, California

2. Date Bank Declared Insolvent - October 18, 1973

3. Total Assets on Date of Declaration - $1,265,868,000

TOTAL ASSETS & DEPOSITS FOR FIVE YEARS PRECEEDING FAILURE

	12/31/68	12/31/69	12/31/70	12/31/71	12/31/72
4. Assets	488,257M	535,762M	596,460M	737,441M	994,218M
Deposits	429,155M	424,212M	504,098M	632,544M	831,402M

5. Summary of facts leading to failure:

Failure of the United States National Bank resulted from massive fraud, perpetrated by a handful of individuals through the use of bank credit to their corporations and other affiliated organizations. Borrowings by these non-bank companies were used to roll-over debt of other non-bank companies with no legitimate reduction experience. Loans ostensibly made to one corporation were surreptiously funneled to or used for the benefit of others. Cash flow problems of the companies precluded adherence to agreed repayment programs, necessitating an ever-increasing pyramid of debt.

Significant questionable transactions were first detected during a routine examination which commenced on June 26, 1972. The culmination of this examination led to the disclosure of two extremely large concentrations of bank credit, the repayment of which was highly questionable at the time. The next examination of the bank was commenced on January 8, 1973 and reflected in essence a continued deterioration in the condition of the bank, due in large part to the credit weaknesses inherent in the large concentrations of credit, as well as recurring violations of law.

On May 24, 1973 the Comptroller's Office issued a Cease and Desist Order which severely curtailed the lending activities of the bank and which called for the removal of the bank's Chairman of the Board and principal shareholder. Despite these supervisory efforts, the adverse publicity surrounding the bank and its parent holding company continued to cause a steady drain on the bank's liquid reserves. U.S. National was forced to borrow extensively both from other banks and the Federal Reserve, which borrowings reached over $80 million in early July.

A special examination of the credits comprising the two large concentrations of credit was completed in late August, 1973. The examiner concluded at that time that some $45 million in credits was loss and another $98 million was viewed as being of doubtful collectability. After intensive review of the examiner's findings, efforts were put in motion to effect an FDIC-assisted sale of the bank, which was achieved on October 18, 1973.

(For additional information see Failure of the U.S. National Bank of San Diego; Hearings before the Subcommittee on Bank Supervision and Insurance of the Committee on Banking and Currency House of Representatives; Ninety-Third Congress, Second Session; November 27, 1973, December 10, 11, and 12, 1974.)

FAILED BANKS

12/31/72 - 12/31/77

1. Name of Bank - Franklin National Bank, New York, New York

2. Date Bank Declared Insolvent - October 8, 1974

3. Total Assets on Date of Declaration - $3,771,801,000

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TOTAL ASSETS & DEPOSITS FOR FIVE YEARS PRECEEDING FAILURE

		12/31/69	12/31/70	12/31/71	12/31/72	12/31/73
4.	Assets	2,875MM	3,489MM	3,537MM	4,397MM	4,996MM
	Deposits	2,062MM	2,632MM	2,840MM	3,461MM	3,732MM

5. Summary of facts leading to failure:

During the 1960s and early 1970s, the bank experienced rapid asset growth funded principally by volatile short-term rate-sensitive funds. The quality of assets booked during that period were not generally of high caliber, due in part to the aggressively competitive market in which the bank operated. The penchant for growth had its impact on the bank's earnings, which declined substantially during the period 1970 to 1973. Net income from operations for 1973 equaled $11MM, down from $24MM in 1970. Of the $11MM experienced in 1973, $7.7MM was generated from foreign exchange trading.

Government efforts to counter the most severe inflation since World War II by restricting growth in money and credit resulted in a rapid run-up in short-term interest rates. The federal funds rate, the rate banks charge other banks for the use of their excess reserves, rose to an average of 12.92 percent in July 1974. The prime rate also averaged about 12 percent during that month. This run-up in short-term rates not only created pressure on Franklin's cost of funds, but it also, through disintermediation, forced Franklin to acquire even greater amounts of volatile funds to finance its operations.

Moreover, the sharp deterioration in economic activity that developed in 1974 was reflected in widespread layoffs, rising unemployment, and declining real incomes. All these stresses were thus reflected in slower loan growth and rising loan losses, which served to the detriment of Franklin.

Franklin, with a history of marginal existence as a New York City bank, as well as poor earnings and an unimpressive management reputation, was simply too weak in too many areas of its operation to withstand the pressures exerted upon it in 1974. The final blow came with the loss of confidence in Franklin by the financial community.

(For additional information see Oversight Hearings into the Effectiveness of Federal Bank Regulation, Franklin National Bank Failure; Hearings before a Subcommittee of the Committee on Government Operations House of Representatives; Ninety-Fourth Congress, Second Session; February 10, May 25, 26, and June 1, 1976).

FAILED BANKS

12/31/72 - 12/31/77

1. Name of Bank - **Swope Parkway National Bank, Kansas City, Mo.**

2. Date Bank Declared Insolvent - 1-3-75

3. Total Assets on Date of Declaration - $7,575,960

TOTAL ASSETS & DEPOSITS FOR FIVE YEARS PRECEEDING FAILURE (thousands)

	12/31/70	12/31/71	12/31/72	12/31/73	12/31/74
4. Assets	9,725	14,324	12,188	9,765	7,980
Deposits	8,455	13,233	11,344	9,407	7,748

5. Summary of facts leading to failure:

Substantial loan losses arising from the imprudent lending policies of the bank's original management was the primary cause of insolvency. Operating losses resulting from a steady decline in deposits also had a negative impact on capital. All efforts made to generate additional capital funds failed and losses resulted in insolvency.

FAILED BANKS

12/31/72 - 12/31/77

1. Name of Bank - American City Bank & Trust Co., N.A., Milwaukee, Wisconsin.

2. Date Bank Declared Insolvent - October 21, 1975

3. Total Assets on Date of Declaration - $158 million

TOTAL ASSETS & DEPOSITS FOR FIVE YEARS PRECEEDING FAILURE

	12/31/*	12/31/*	12/31/72	12/31/73	12/31/74
4. Assets			239,809M	229,754M	188,170M
Deposits			200,344M	181,741M	145,614M

*Bank converted to National Charter 12/22/72. Figures from prior years as state bank not available.

5. Summary of facts leading to failure:

The bank's principal problem was attributable to a preoccupation for rapid growth with concomitant disconcern for asset quality, liability management and capital adequacy. Desire for growth and profitability during the latter part of 1972 and 1973 was fulfilled through solicitation of poor quality loans to marginal borrowers. Over 70% of the bank's loan portfolio in September of 1975 was centered in speculative real estate development and construction loans which had been affected significantly by the escalation of building cost over-runs and a general recessionary economy. Many of the development projects were to out-of-area borrowers, intensifying the difficulties of problem credit supervision, which management proved incapable of accomplishing. ACB underwent a serious crisis of confidence in both 1974 and 1975, which crisis was further exacerbated by the failure of ACB's parent, American Bancshares Corporation, to publish its annual report for the fiscal year ended December 31, 1974. Further contributing to the adverse publicity surrounding the two banking companies was the April, 1975 suspension of trading in the shares of ACB's parent by the State of Wisconsin Securities Commission.

Beginning in February of 1975, it became more apparent that ACB was steadily losing the confidence of its customers and approaching a crisis point. Losses in ACB's portfolio had steadily mounted. Between February and October, 1975, the bank experienced a deposit run-off exceeding $35 million, coupled with an inability to raise funds in the money market. Sustained reliance by ACB on the purchase of federal funds to maintain its liquidity, and a corresponding loss of creditability to sellers of federal funds, resulting from adverse published reports, had, since June of 1974, virtually foreclosed ACB from the federal funds market.

During the Fall of 1975 bank management engaged in numerous discussions with bank holding companies and individuals to try to effect a take-over by qualified purchasers of the bank, and concomitantly inject additional needed capital without FDIC assistance. However, it increasingly became apparent that a solution short of FDIC assistance could not be accomplished because of the massive problems in the bank. The Marine National Exchange Bank of Milwaukee purchased certain assets and assumed certain liabilities of the insolvent institution from the FDIC acting as receiver.

FAILED BANKS

12/31/72 - 12/31/77

1. Name of Bank - The Hamilton National Bank of Chattanooga, Chattanooga, Tennessee

2. Date Bank Declared Insolvent - February 16, 1976

3. Total Assets on Date of Declaration - $441,267,000

TOTAL ASSETS & DEPOSITS FOR FIVE YEARS PRECEEDING FAILURE (thousands)

	12/31/71	12/31/72	12/31/73	12/31/74	12/31/75
4. Assets	360,033	414,074	464,781	551,074	476,073
Deposits	298,691	336,593	372,892	448,194	408,004

5. Summary of facts leading to failure: Hamilton National Bank was chartered by the Comptroller's Office in 1905. As of December 31, 1975 Hamilton National Bank ranked as the largest of the seven banks located in Chattanooga, Tennessee.

In 1969, Hamilton National Bank became a subsidiary of Hamilton Bancshares, Inc., a registered multi-bank holding company. The bank and the holding company had been closely associated since 1930 because of common ownership. Hamilton National Bank was the largest bank of the 18 banks operated by the holding company in Tennessee and Georgia. The holding company also had several non-banking subsidiaries which were engaged in real estate, data processing, mortgage banking, loan servicing, life insurance and factoring. These subsidiaries were formed between 1971 and 1974. The principal non-bank subsidiary, Hamilton Mortgage Corporation, was located in Atlanta, Georgia.

An examination of Hamilton National Bank begun on September 30, 1974, and continuing into November 1974, revealed substantial asset difficulties. The examiner criticized the creditworthiness of loans and other assets amounting to 154% of gross capital funds. The poor condition of Hamilton National Bank was directly attributable to the large number of real estate loans originated or acquired from Hamilton Mortgage Corporation, a wholly-owned subsidiary of Hamilton Bancshares, Inc. Many of these loans represented 100% financing of acquisition, development and construction costs for large real estate projects. Most borrowers were highly leveraged and lacked the ability to complete or sell the projects undertaken.

The Comptroller of the Currency entered into an agreement with the Board of Directors of the bank on December 18, 1974, restricting extensions of credit or loan participations between Hamilton National Bank and the holding company, and its affiliates and subsidiaries. Successive examinations and visitations revealed further deterioration. The September 29, 1975 examination revealed assets acquired from Hamilton Mortgage Corporation aggregated 87% of total assets whose creditworthiness was questioned and 243% of gross capital funds. Non-accrual loans and non-income producing real estate exceeded $77 million. Almost 27% of the loan portfolio was past due. Of these delinquent loans, 97% had been acquired from Hamilton Mortgage Corporation. During the first 11 months of 1975 the bank had a net operating loss of $8.2 million, principally as a result of heavy loan losses and non-accrual assets.

During the period between January 31, 1975 and January 31, 1976 the bank underwent considerable retrenchment and suffered an absolute deposit decline of $76.9 million as well as a decline in borrowings of $15.7 million. These reductions, which aggregated $92.6 million, were met primarily through the liquidation of assets, including cash and due-from-banks, securities, and federal funds sold. This steady drain on liquid assets of the bank was in the end to cause its ultimate demise.

At the end of 1975 it became apparent that without a massive capital infusion, Hamilton National Bank would be unable to sustain operations over the time period necessary to work out its real estate and other problems. Without such assistance the bank and Hamilton Mortgage Corporation could not fund out the real estate projects or otherwise complete them. In view of the extended litigation on many of the properties, their location in economically depressed areas, and the inactive and incomplete nature of some of the developments, it was the OCC's opinion that the liquidating value of the bank's portfolio of Hamilton Mortgage Corporation related loans and foreclosed properties was much less than the value shown on the bank's books and records. In early February, 1976, the Comptroller's Office estimated that on a liquidating basis, the loss inherent in the bank's $73 million of Hamilton Mortgage Corporation-related assets and the securities portfolio would exceed the gross capital funds of approximately $28.5 million shown on the bank's books as of January 31, 1976.

The Comptroller opined at that time that unless the bank or its parent holding company was able to raise the needed capital immediately, the bank could no longer be viewed as a going concern. There were no available sources of capital to rescue the bank as an entity and place it on its feet. Hamilton Bancshares, Inc., was in an extended financial condition at the time and was incapable of raising sufficient funds to recapitalize the bank. No other banking company or other private group had shown any interest in assuming the bank without considerable federal assistance. After months of negotiations, the FDIC had been unable to agree with major lenders of the holding company (a group of banks) on a plan calling for financial assistance to Hamilton National Bank by the FDIC pursuant to 12 U.S.C. 1823 (c).

In early February, 1976 the bank faced a severe liquidity crisis. Up until that time, the bank had been able to meet deposit withdrawals through the liquidation of assets; however, it could no longer continue to do so. Hamilton Mortgage Corporation-related mortgages and real estate were steadily becoming a higher and higher proportion of the asset structure of the bank and could not be sold to meet the demands of depositors and other creditors. Additionally, the securities portfolio of $82 million was largely pledged or sold under agreements to repurchase, leaving little margin for liquidity purposes. Finally, the adverse publicity surrounding the bank seriously hindered its ability to borrow from private sources to meet excessive deposit withdrawals.

On February 16, 1976, having become satisfied that Hamilton National Bank was insolvent, the Comptroller appointed the FDIC as receiver.

FAILED BANKS

12/31/72 - 12/31/77

1. Name of Bank - Coronado National Bank, Denver, Colorado

2. Date Bank Declared Insolvent - 6-25-76

3. Total Assets on Date of Declaration - $2,612,693

TOTAL ASSETS & DEPOSITS FOR FIVE YEARS PRECEEDING FAILURE (thousands)

		12/31/71	12/31/72	12/31/73	12/31/74	12/31/75
4.	Assets	Chartered		2,905	3,393	4,127
	Deposits	3-31-73		2,364	2,876	3,895

5. Summary of facts leading to failure:

The bank opened 3-31-73 for the purpose of serving the Mexican-American community of Denver, and was plagued with both operating and loan losses from inception. The problems resulted mainly from a lack of effective and experienced management in the bank. The bank's first two Chief Executive Officers exercised extremely liberal policies and were lax in supervision of bank operations. The third President resigned in February 1975, at the request of the Comptroller's Office. His replacement, while considered capable, was unable to stem the flow of losses. Operating and loan losses had depleted capital funds to a deficit $9,630 as of April 21, with continued monthly operating losses of $7,000. The bank was declared insolvent when it became apparent that the Board of Directors could not succeed in recapitalization or reorganization of the bank.

FAILED BANKS

12/31/72 - 12/31/77

1. Name of Bank - Republic National Bank of Louisiana, New Orleans, Louisiana

2. Date Bank Declared Insolvent - July 29, 1977

3. Total Assets on Date of Declaration - $6,611,000

TOTAL ASSETS AND DEPOSITS FOR FIVE YEARS PRECEEDING FAILURE

	12/31/72	12/31/73	12/31/74	12/31/75	12/31/76
4. Assets	*	*	2,906,000	12,557,000	7,471,000
Deposits	*	*	1,892,000	11,573,000	5,785,000

5. Summary of facts leading to failure:

During the three years that the bank was in existence, it suffered from inadequate director supervision, an excessive volume of poor quality loans, and abuse by directors and officers. Despite close monitoring, the capital structure was steadily eroded by the high volume of poor quality loans. Although the Board signed a letter of assurance (dated 2/1/77) and consented to a formal Cease and Desist Order (6/16/77), unsafe and unsound practices continued. State Of Louisiana funds and U.S. Customs accounts were mishandled; subsequent rapid withdrawal of state funds precipitated a continual liquidity crises necessitating borrowing from the Federal Reserve Bank on a daily basis. In June of 1977, local banks refused to purchase portions of the bank's loan portfolio because of its poor quality. Because of the extreme concern about the continued deterioration in the bank's loan portfolio, a Special Supervisory Credit Examination was ordered to begin on 7/25/77. On July 29, 1977, loan losses exceeded capital funds and reserves. Because of its negative net worth, and an imminent liquidity crisis, the bank was declared insolvent on July 29, 1977, and the FDIC was appointed as its receiver.

*Opened for business on 6/18/74.

Response to Request #19

INDEX

MERGERS, ACQUISITIONS BY HOLDING COMPANY & PURCHASE & ASSUMPTION TRANSACTIONS EFFECTED TO AVERT FAILURES

1973 - 1977

NAME	TYPE OF TRANSACTION	DATE
Beverly Hills National Bank Beverly Hills, California	Purchase & Assumption	January 22, 1974
Citizens National Bank Jackson, Mississippi	Purchase & Assumption	November 14, 1974
Security National Bank Hempstead, New York	Purchase & Assumption	January 20, 1975
The First National Bank of Tucker, Tucker, Georgia	Purchase & Assumption	March 24, 1975
Palmer First National Bank & Trust Company of Sarasota Sarasota, Florida	Acquisition by Holding Company	January 15, 1976
Community National Bank of Warrensville Heights Warrensville Heights, Ohio	Purchase & Assumption	June 18, 1976
Mercantile National Bank Atlanta, Georgia	Purchase & Assumption	July 1, 1976
Red Creek National Bank Red Creek, New York	Purchase & Assumption	July 20, 1976
First National Bank of Puerto Rico Hato Rey, Puerto Rico	Acquisition by Holding Company	September 3, 1976
Chelsea National Bank New York, New York	Purchase & Assumption	December 31, 1976
Midland National Bank Milwaukee, Wisconsin	Purchase & Assumption	July 23, 1977

See attached for brief descriptions.

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MERGERS, ACQUISITIONS BY HOLDING COMPANY
& PURCHASE & ASSUMPTION TRANSACTIONS EFFECTED
TO AVERT FAILURES

12/31/72 - 12/31/77

1. Name of Bank - Beverly Hills National Bank, Beverly Hills, California

2. Type of Transaction - Purchase and Assumption

3. Effective Date of Transaction - January 22, 1974

4. Total Assets on Date of Transaction - $140,167,000

TOTAL ASSETS & DEPOSITS FOR FIVE
YEARS PRECEEDING TRANSACTION

(thousands)

	12/31/69	12/31/70	12/31/71	12/31/72	12/31/73
5. Assets	70,890	83,429	102,853	122,146	145,928
Deposits	58,210	65,614	83,222	102,911	122,724

6. Summary of facts leading to transaction:

Beverly Hills Bancorp. (BHB), the parent of Beverly Hills National Bank (BHNB) became financially involved with a real estate developer. To aid in the funding activities of this developer, BHB issued short term commercial paper using Beverly Hills National Bank personnel to market it. Subsequently, the real estate developer became unable to repay its indebtedness to BHB due to a slowness of real estate sales. This precipitated a liquidity crisis for BHB. To relieve its liquidity problems during this period, BHB made several attempts to obtain funds from BHNB. On 12/31/73, due to a lack of funds, BHB discontinued both the issuance/redemption of commercial paper with the real estate developer declaring bankruptcy on 1/15/74. An examiner was placed into BHNB early in December 1973 to observe and monitor all transactions between BHB and BHNB. On 12/26/73 a Notice of Charges and a Cease and Desist Order was issued by the OCC to protect BHNB and BHB. Due to the problems at BHB, depositors at BHNB became uneasy and began withdrawing deposits, which precipitated a liquidity crisis for the bank. On 1/22/74 BHNB was sold through a purchase and assumption arrangement to Wells Fargo Bank, N.A. to avert a failure.

MERGERS, ACQUISITIONS BY HOLDING COMPANY
& PURCHASE & ASSUMPTION TRANSACTIONS EFFECTED
TO AVERT FAILURES
12/31/72 - 12/31/77

1. Name of Bank - Citizens National Bank, Jackson, Mississippi
2. Type of Transaction - P/A; First Mississippi N/B, Harrisburg, Miss.
3. Effective Date of Transaction - 11-14-74
4. Total Assets on Date of Transaction - $40,479,000

TOTAL ASSETS & DEPOSITS FOR FIVE
YEARS PRECEEDING TRANSACTION (thousands)

	12/31/69	12/31/70	12/31/71	12/31/72	12/31/73
5. Assets	50,529	22,077	27,058	35,035	45,708
Deposits	13,630	19,683	24,274	31,074	40,441

6. Summary of facts leading to transaction:

The problems in this institution stemmed from poor management, and involvement in a large kiting operation and imprudent loans which resulted in significant losses and the need for additional capital. The directorate elected to merge with another bank rather than raise additional capital. However, a purchase and assumption transaction was executed when litigation was filed against the bank and a liquidity crisis developed.

MERGERS, ACQUISITIONS BY HOLDING COMPANY
& PURCHASE & ASSUMPTION TRANSACTIONS EFFECTED
TO AVERT FAILURES

12/31/72 - 12/31/77

1. Name of Bank - Security National Bank, Hempstead, New York

2. Type of Transaction - Purchase of and assumption; Chemical Bank.

3. Effective Date of Transaction - January 20, 1975

4. Total Assets on Date of Transaction - $1,726MM

TOTAL ASSETS & DEPOSITS FOR FIVE
YEARS PRECEEDING TRANSACTION
(Millions)

		12/31/70	12/31/71	12/31/72	12/31/73	12/31/74
5.	Assets	1,161	1,415	2,185	1,816	1,715
	Deposits	969	1,179	1,713	1,497	1,334

6. Summary of facts leading to transaction:

Rapid asset growth of this institution in the late 1960s and early 1970s produced a need for qualified management and administrative controls. Significant management problems developed, highlighted by inordinate senior management turnover, inadequate staffing in the lending area, divisiveness among management, and both indifference and interference by the Board of Directors. Emphasis on loan growth necessitated increasing dependence on volatile funds purchased, particularly federal funds, large CDs and public fund deposits. Loan losses began to escalate in 1973 and by 1974 could not be covered by earnings or the available reserves. Bank's operating income was nearly non-existent as interest costs, nonaccrual loans and loan loss provisions were substantial.

The bank's deposit base began to ebb in early 1974. During the summer of 1974 domestic and foreign funding sources evaporated. By early 1975, daily assistance was being provided by the Federal Reserve Bank of New York, as the federal funds market and other fund sources were virtually closed. Confidence problems were exacerbated by the atmosphere prevailing from the then recent demise of the Franklin National Bank and Security's acknowledged difficulties in banking circles culminating with explicit newspaper coverage of problems in late 1974 and early 1975.

Following the June 1974 examination, several meetings were held with management and the Board to emphasize specific recovery measures. The Comptroller of the Currency and senior OCC personnel participated in several of these meetings. In the fall of 1974, it became apparent that the bank could not be recapitalized, reduce borrowed funds, improve loan quality, and otherwise solve its earnings and management problems. In January 1975, with the Comptroller's approval, an emergency purchase and assumption transaction was consummated with Chemical Bank.

MERGERS, ACQUISITIONS BY HOLDING COMPANY
& PURCHASE & ASSUMPTION TRANSACTIONS EFFECTED
TO AVERT FAILURES

12/31/72 - 12/31/77

1. Name of Bank - The First N/B of Tucker, Tucker, Georgia

2. Type of Transaction - P/A; National Bank of Georgia, Atlanta Georgia

3. Effective Date of Transaction - 3/24/75

4. Total Assets on Date of Transaction - $17,714,000

TOTAL ASSETS & DEPOSITS FOR FIVE
YEARS PRECEEDING TRANSACTION (thousands)

		12/31/70	12/31/71	12/31/72	12/31/73	12/31/74
5.	Assets	5,545	6,048	12,306	18,686	19,622
	Deposits	4,877	5,098	11,183	16,397	16,561

6. Summary of facts leading to transaction:

The problems in this institution were brought about by the origination of an excessive volume of loans in relation to deposits and capital, and a large volume of speculative real estate loans which resulted in fatal losses to the bank. The excessive volume of frozen loans in the bank negatively impacted on liquidity and by mid-1974 daily borrowing at a large metropolitan bank and the Federal Reserve Bank became necessary to meet deposit runoffs. Approaching insolvency eliminated these sources of funds and a purchase and assumption transaction was arranged.

MERGERS, ACQUISITIONS BY HOLDING COMPANY
& PURCHASE & ASSUMPTION TRANSACTIONS EFFECTED
TO AVERT FAILURES
12/31/72 - 12/31/77

1. Name of Bank - Community N/B of Warrensville Heights, Warrensville Heights, Ohio
2. Type of Transaction - P/A: First Bank N.A., Cleveland, Ohio
3. Effective Date of Transaction - 6/18/76
4. Total Assets on Date of Transaction - $16,131,000

TOTAL ASSETS & DEPOSITS FOR FIVE
YEARS PRECEEDING TRANSACTION (thousands)

		12/31/71	12/31/72	12/31/73	12/31/74	12/31/75
5.	Assets	32,504	38,331	45,983	33,171	20,280
	Deposits	29,058	32,661	40,796	29,151	18,532

6. Summary of facts leading to transaction:

In 1974, the bank purchased a large volume of poor quality loans from an affiliated institution. This Office promptly entered into an Agreement with the Directorate calling for the removal of such loans from the bank through resale to the affiliate. Unfortunately, the affiliated bank was declared insolvent after repurchasing only a small portion of the loans. Subsequent loan losses and operating losses, due to high interest costs, heavy occupancy expenses, declining loan revenues and high employee expenses, eliminated all equity capital in the bank. The directorate was unable to recapitalize the bank and elected to enter a purchase and assumption transaction in order to avert failure.

MERGERS, ACQUISITIONS BY HOLDING COMPANY
& PURCHASE & ASSUMPTION TRANSACTIONS EFFECTED
TO AVERT FAILURES
12/31/72 - 12/31/77

1. Name of Bank - Mercantile N/B, Atlanta, Georgia

2. Type of Transaction - P/A: N/B of Georgia, Atlanta, Georgia

3. Effective Date of Transaction - 7-1-76

4. Total Assets on Date of Transaction - $11,021,000

TOTAL ASSETS & DEPOSITS FOR FIVE
YEARS PRECEEDING TRANSACTION (thousands)

	12/31/71	12/31/72	12/31/73	12/31/74	12/31/75
5. Assets	14,898	15,548	13,502	12,093	11,860
Deposits	13,242	13,426	10,946	9,526	10,662

6. Summary of facts leading to transaction:

Mercantile, among the smallest commercial banks operating in the Atlanta market, experienced rapid management turnover and an 18 percent decline in total assets during the years 1971 through 1975. These factors made the bank a relatively ineffective competitor and an uneconomic operation within the Atlanta market. During the same five-year period, Mercantile had net operating profits only in 1972 and 1973, and an average net operating loss per year of approximately $63 thousand. By the first quarter of 1976, Mercantile was experiencing an average monthly net operating loss of approximately $37 thousand, in addition to substantial loan losses, which seriously eroded the bank's capital structure. In view of additional operating and loan losses anticipated, and the unwillingness to recapitalize the bank at an adequate level, the Directorate elected to effect a purchase and assumption transaction with another institution and voluntarily liquidate the bank.

MERGERS, ACQUISITIONS BY HOLDING COMPANY
& PURCHASE & ASSUMPTION TRANSACTIONS EFFECTED
TO AVERT FAILURES

12/13/72 - 12/31/77

1. Name of Bank - Red Creek N/B, Red Creek, N.Y.

2. Type of Transaction - P/A; Oneida N/B & Trust Co. of Central N.Y. Utica, N.Y.

3. Effective Date of Transaction - 7-20-76

4. Total Assets on Date of Transaction - $12,288,000

TOTAL ASSETS & DEPOSITS FOR FIVE YEARS PRECEEDING TRANSACTION (thousands)

		12/31/71	12/31/72	12/31/73	12/31/74	12/31/75
5.	Assets	6,645	8,646	8,948	10,775	12,759
	Deposits	5,903	7,808	8,051	9,830	10,911

6. Summary of facts leading to transaction:

The major factor attributing to the bank's condition was incompetent management. The Board of Directors exercised virtually no supervision over the affairs of the bank and serious mismanagement of the loan portfolio by the Chief Executive Officer prevailed. The resultant heavy loan losses effectively depleted the bank's capital funds. When efforts to employ competent management and obtain financial aid from shareholders were unsuccessful, the directorate elected to enter a purchase and assumption transaction with another institution.

MERGERS, ACQUISITIONS BY HOLDING COMPANY &
PURCHASE & ASSUMPTION TRANSACTIONS EFFECTED
TO AVERT FAILURES
12/31/72 - 12/31/77

1. Name of Bank - First N/B of Puerto Rico, Hato Rey, Puerto Rico

2. Type of Transaction - Acquisition by Holding Company

3. Effective Date of Transaction - September 3, 1976

4. Total Assets on Date of Transaction - $25,979,000

TOTAL ASSETS & DEPOSITS FOR FIVE YEARS PRECEEDING TRANSACTION (thousands)

	12/31/71	12/31/72	12/31/73	12/31/74	12/31/75
5. Assets	Chartered	6,797	23,661	31,001	31,406
Deposits	9-29-72	4,758	21,144	28,258	28,754

6. Summary of facts leading to transaction:

Poor supervision by the Directorate, deterioration in the local economy, and imprudent lending practices resulted in sizeable loan losses and erosion of capital funds. Profitable operations were never consistently achieved, and the bank was able to raise necessary capital only through sale of a stock offering to a bank holding company interested in expanding operations in Puerto Rico.

MERGERS, ACQUISITIONS BY HOLDING COMPANY &
PURCHASE & ASSUMPTION TRANSACTIONS EFFECTED
TO AVERT FAILURES
12/31/72 - 12/31/77

1. Name of Bank - Chelsea National Bank, New York, New York

2. Type of Transaction - P/A: Union Chelsea N/B, New York, New York

3. Effective Date of Transaction - December 31, 1976

4. Total Assets on Date of Transaction - $30,133,000

TOTAL ASSETS & DEPOSITS FOR FIVE YEARS PRECEEDING TRANSACTION (thousands)

	12/31/71	12/31/72	12/31/73	12/31/74	12/31/75
5. Assets	26,751	31,697	36,707	32,980	31,082
Deposits	21,808	28,135	32,226	28,316	27,014

6. Summary of facts leading to transaction:

The bank's problems stemmed from very liberal and aggressive lending to clientele which larger New York banks could afford to turn down, and a history of deficit or only nominal earnings resulting from loan losses, and abnormally high salary expense. Serious deterioration in the bank's loan portfolio first appeared at the October 28, 1975 examination, where sizeable losses were identified. Subsequent examinations and visitations revealed continued deterioration in the loan portfolio and additional loan losses which, along with operating losses, effectively placed the bank on the brink of insolvency.

A new Chief Executive Officer was appointed October 1, 1975, but was able to function as little more than a caretaker since problem loans were already in-place and negotiations were being undertaken to sell control of the bank, rather than raise the necessary capital. On December 31, 1976 100% of the stock was purchased by a group of individuals who subsequently recapitalized the bank.

MERGERS, ACQUISITIONS BY HOLDING COMPANY
& PURCHASE AND ASSUMPTION TRANSACTIONS EFFECTED
TO AVERT FAILURES
12/31/72 - 12/31/77

1. Name of Bank - Midland National Bank, Milwaukee, Wisconsin

2. Type of Transaction - P/A: National Bank of Wisconsin, LaCrosse Wisconsin (subsidiary of First Bank System, Minneapolis, Minnesota)

3. Effective Date of Transaction - July 23, 1977

4. Total Assets on Date of Transaction - $400,000,000

TOTAL ASSETS & DEPOSITS FOR FIVE
YEARS PRECEEDING TRANSACTION

	12/31/72	12/31/73	12/31/74	12/31/75	12/31/76
5. Assets	250,564,596	321,908,966	385,610,766	355,017,454	394,648,000
Deposits	199,282,239	242,467,071	266,932,678	309,898,834	337,313,520

6. Summary of facts leading to transaction:

Midland National Bank was organized as a National Bank on May 5, 1965, when it was granted Charter No. 15510. As of year-end 1976, the Midland National Bank had total deposits of $337.3 million, and ranked as the fourth largest commercial banking institution headquartered within the State of Wisconsin.

Serious asset problems became critical in Midland National Bank during 1976, resulting in a substantial net operating loss for the year. Most of the losses were attributable to the real estate loan portfolio. The severity and complexity of the real estate loan problems, as well as the volatility of the bank's deposit structure, threatened the Midland National Bank's survival without a massive injection of capital. During the early months of 1977, efforts by bank management to secure needed capital were unsuccessful. At the same time close monitoring of the bank by the Comptroller's Office indicated that its condition was continuing to deteriorate.

An offer had been made to Midland National Bank contemplating the sale of its assets and the assumption of its liabilities, including all deposit liabilities, by The National Bank of Wisconsin in La Crosse. Because of the precarious financial condition of Midland National Bank and the likelihood that a failure immediately to consummate this proposed transaction would result in the probable failure of this Milwaukee institution, with all of the attendant injury to depositors, creditors, and shareholders, the Comptroller approved the offer made by The National Bank of Wisconsin in LaCrosse, Wisconsin.

Purchasing Bank, at December 31, 1976, had total commercial bank deposits of $54.4 million; however, it is a wholly owned banking subsidiary of First Bank System, Inc., Minneapolis, Minnesota, a registered multi-bank holding company that controls 86 banks, with total deposits exceeding $6 billion.

Comptroller of the Currency
Administrator of National Banks

Washington, D. C. 20219

April 6, 1978

The Honorable William Proxmire
Chairman
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

The attached information is an addendum to the data we submitted to you on March 1, 1978. It is supplied in response to questions 5, 9, 10, 12, 13, and 15 of your request of December 15, 1978.

This data was originally furnished to you on a domestic only basis by the Federal Deposit Insurance Corporation on March 3, 1978. At the request of Mr. Lindy Marinaccio, Special Counsel to the Committee, we recomputed this data on a fully consolidated foreign and domestic basis.

For comparative purposes, the format is consistent with Schedule A-3 in the original submission by the Federal Deposit Insurance Corporation. However, there are some minor differences in the method used to calculate averages, total capital, total loans, net interest margins and average earning assets.

Sincerely,

John G. Heimann
Comptroller of the Currency

NATIONAL BANKS
1972-1977

DATE	TOTAL	0-100 MILLION	100-500 MILLION	500 MILLION-1 BILLION	1-5 BILLION	OVER 5 BILLION
		TOTAL DEPOSITS IN FOREIGN AND DOMESTIC OFFICES				
NUMBER OF BANKS						
12-31-72	4491.	4073.	306.	56.	46.	10.
12-31-73	4597.	4146.	341.	58.	47.	11.
12-31-74	4706.	4218.	369.	59.	49.	11.
12-31-75	4745.	4213.	406.	64.	51.	11.
12-31-76	4738.	4164.	442.	63.	58.	11.
06-30-77	4703.	4117.	447.	70.	58.	11.
5A TOTAL EQUITY & DEBT CAPITAL (IN MILLIONS)						
12-31-72	30112.	7128.	5147.	3188.	5888.	8762.
12-31-73	33011.	7911.	5806.	3374.	6189.	9730.
12-31-74	35877.	8669.	6393.	3599.	6835.	10380.
12-31-75	39069.	9135.	6879.	3869.	7622.	11565.
12-31-76	44047.	9748.	7700.	3870.	9069.	13661.
06-30-77	45942.	10099.	7843.	4313.	9328.	14359.
5B PERCENTAGE OF EQUITY CAPITAL TO TOTAL ASSETS						
12-31-72	5.78	7.02	6.43	6.51	5.41	4.79
12-31-73	5.44	7.15	6.36	6.18	5.05	4.25
12-31-74	5.33	7.41	6.60	6.27	5.12	3.86
12-31-75	5.61	7.42	6.66	6.50	5.51	4.25
12-31-76	5.87	7.73	6.92	6.52	5.78	4.59
06-30-77	5.91	7.85	7.10	6.70	5.85	4.57
5C PERCENTAGE OF EQUITY CAPITAL TO TOTAL DEPOSITS						
12-31-72	6.87	7.39	7.47	7.80	6.75	5.77
12-31-73	6.59	8.10	7.53	7.60	6.56	5.19
12-31-74	6.46	8.45	7.85	7.82	6.67	4.67
12-31-75	6.79	8.48	7.86	7.98	7.10	5.17
12-31-76	7.10	8.61	8.03	7.96	7.47	5.66
06-30-77	7.22	8.79	8.27	8.11	7.68	5.72
5D PERCENTAGE OF DEBT CAPITAL TO TOTAL CAPITAL						
12-31-72	6.91	2.68	5.76	7.41	12.59	7.03
12-31-73	6.65	3.11	6.64	7.80	12.73	5.26
12-31-74	6.38	3.13	5.72	8.29	12.56	4.78
12-31-75	5.91	3.29	5.64	6.84	11.36	4.25
12-31-76	6.19	3.40	5.70	7.04	11.07	4.99
06-30-77	6.12	3.48	5.74	7.56	10.79	4.71

NATIONAL BANKS
1972-1977

may 5 figures

		TOTAL DEPOSITS IN FOREIGN AND DOMESTIC OFFICES				
DATE	TOTAL	0-100 MILLION	100-500 MILLION	500 MILLION-1 BILLION	1-5 BILLION	OVER 5 BILLION
5E PERCENTAGE OF TOTAL CAPITAL TO TOTAL ASSETS						
12-31-72	6.21	7.22	6.82	7.03	6.19	5.15
12-31-73	5.82	7.38	6.81	6.70	5.78	4.48
12-31-74	5.69	7.64	7.00	6.84	5.86	4.05
12-31-75	5.96	7.67	7.05	6.98	6.21	4.44
12-31-76	6.25	8.00	7.34	7.01	6.50	4.83
06-30-77	~~6.30~~ 6.05 12/31/77	8.13	7.53	7.25	6.56	~~4.79~~ 4.56 12/31/77
5F PERCENTAGE OF TOTAL CAPITAL TO TOTAL LIABILITIES						
12-31-72	6.68	7.84	7.39	7.63	6.66	5.48
12-31-73	6.24	8.04	7.38	7.25	6.19	4.73
12-31-74	6.09	8.35	7.60	7.41	6.28	4.26
12-31-75	6.40	8.38	7.66	7.57	6.69	4.68
12-31-76	6.67	8.70	7.92	7.54	6.95	5.07
06-30-77	6.72	8.85	8.15	7.81	7.02	5.04
5G PERCENTAGE OF TOTAL CAPITAL TO RISK ASSETS						
12-31-72	8.62	10.17	9.32	9.46	8.41	7.28
12-31-73	7.92	10.09	9.03	8.70	7.72	6.26
12-31-74	7.57	10.22	9.22	8.87	7.65	5.47
12-31-75	8.72	10.60	9.63	9.25	8.52	6.20
12-31-76	8.67	11.04	10.04	9.35	9.13	6.74
06-30-77	8.63	11.06	10.20	9.61	9.10	~~6.63~~ 6.31 12/31/77
9A TOTAL LOANS (EXCLUDING FEDERAL FUNDS) (IN MILLIONS)						
12-31-72	255860.	49015.	38558.	23911.	50694.	93682.
12-31-73	307366.	54910.	45410.	27577.	57649.	121820.
12-31-74	350968.	58531.	48510.	28386.	63560.	151981.
12-31-75	353702.	60028.	49293.	29178.	62889.	152314.
12-31-76	372477.	61791.	52022.	27922.	68849.	161893.
06-30-77	391371.	65881.	54246.	31726.	72496.	167022.
9B PERCENTAGE OF TOTAL LOANS TO TOTAL DEPOSITS						
12-31-72	62.70	55.72	59.41	63.20	66.45	66.39
12-31-73	65.74	58.06	63.11	67.37	69.99	68.56
12-31-74	67.50	58.87	63.14	67.22	70.92	71.74
12-31-75	65.32	57.60	59.68	64.57	66.11	71.05
12-31-76	63.97	56.53	57.52	61.75	63.77	70.59
06-30-77	65.52	59.39	60.68	64.52	66.87	69.77

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NATIONAL BANKS
1972-1977

DATE	TOTAL	TOTAL DEPOSITS IN FOREIGN AND DOMESTIC OFFICES: 0-100 MILLION	100-500 MILLION	500 MILLION-1 BILLION	1-5 BILLION	OVER 5 BILLION
9C PERCENTAGE OF NET LOAN LOSSES TO AVERAGE TOTAL LOANS						
12-31-72	0.22	0.22	0.23	0.32	0.24	0.19
12-31-73	0.25	0.23	0.24	0.23	0.25	0.27
12-31-74	0.36	0.35	0.38	0.47	0.48	0.28
12-31-75	0.60	0.50	0.57	0.65	0.57	0.65
12-31-76	0.60	0.39	0.53	0.61	0.66	0.67
06-30-77	0.20	0.11	0.15	0.15	0.22	0.24
10A TOTAL 30 DAY AVERAGE BORROWINGS (IN MILLIONS)						
12-31-72	27627.	748.	3108.	2852.	8920.	11999.
12-31-73	42728.	1304.	4579.	4158.	13568.	19120.
12-31-74	42321.	1667.	4956.	4716.	13914.	17067.
12-31-75	43758.	1543.	4803.	4450.	13730.	19232.
12-31-76	59047.	1586.	6052.	5374.	19211.	26824.
06-30-77	62554.	1792.	5796.	5386.	20441.	29139.
10B PERCENTAGE OF 30 DAY AVERAGE BORROWINGS TO 30 DAY AVERAGE DEPOSITS						
12-31-72	6.98	0.86	4.97	7.83	12.20	8.75
12-31-73	9.41	1.41	6.59	10.59	17.34	10.96
12-31-74	8.37	1.71	6.66	11.70	16.25	8.21
12-31-75	8.32	1.52	6.09	10.20	15.13	9.12
12-31-76	10.40	1.47	6.83	12.31	18.54	12.00
06-30-77	10.69	1.62	6.54	11.14	19.28	12.60
12 TOTAL OTHER REAL ESTATE (IN MILLIONS)						
12-31-72	169.	46.	32.	23.	38.	28.
12-31-73	226.	50.	41.	22.	60.	53.
12-31-74	393.	81.	79.	54.	122.	56.
12-31-75	1060.	123.	191.	136.	350.	260.
12-31-76	1770.	155.	226.	192.	595.	602.
06-30-77	1871.	162.	207.	193.	619.	691.
13A PERCENTAGE OF NET INCOME TO AVERAGE TOTAL ASSETS						
12-31-72	0.74	0.90	0.83	0.83	0.73	0.59
12-31-73	0.73	0.96	0.79	0.83	0.69	0.58
12-31-74	0.67	0.91	0.77	0.73	0.63	0.54
12-31-75	0.67	0.84	0.72	0.72	0.68	0.56
12-31-76	0.69	0.92	0.78	0.75	0.67	0.56
06-30-77	0.35	0.50	0.42	0.38	0.33	0.26

NATIONAL BANKS
1972-1977

DATE	TOTAL	0-100 MILLION	100-500 MILLION	500 MILLION-1 BILLION	1-5 BILLION	OVER 5 BILLION
		TOTAL DEPOSITS IN FOREIGN AND DOMESTIC OFFICES				
13B PERCENTAGE OF NET INCOME TO AVERAGE EQUITY CAPITAL						
12-31-72	12.34	12.51	12.50	12.44	12.83	11.73
12-31-73	12.77	13.12	12.11	12.90	13.12	12.63
12-31-74	12.49	12.31	11.64	11.67	12.43	13.46
12-31-75	12.07	11.22	10.74	11.03	12.49	13.66
12-31-76	11.70	11.74	11.05	11.20	11.40	12.37
06-30-77	5.88	6.41	5.92	5.63	5.68	5.67
13C PERCENTAGE OF NET INTEREST MARGIN TO AVERAGE EARNING ASSETS						
12-31-72	3.49	3.78	3.66	3.63	3.53	3.04
12-31-73	3.51	3.93	3.66	3.71	3.47	3.03
12-31-74	3.60	4.05	3.78	3.83	3.60	3.09
12-31-75	3.69	3.94	3.88	3.97	3.68	3.30
12-31-76	3.59	4.12	4.03	4.07	3.58	3.10
06-30-77	1.75	2.05	2.01	1.99	1.73	1.49
15 TOTAL STANDBY LETTERS OF CREDIT (IN MILLIONS)						
12-31-72	0.	0.	0.	0.	0.	0.
12-31-73	2598.	0.	28.	310.	1125.	1134.
12-31-74	7196.	2.	45.	237.	1137.	5774.
12-31-75	8286.	250.	371.	348.	1168.	6149.
12-31-76	10527.	175.	418.	382.	1239.	8313.
06-30-77	11380.	170.	464.	450.	1371.	8926.

SOURCE: Reports of Condition, Reports of Income, and Special Reports.

FOOTNOTES:

Number of banks: Statistics for 1972 and 1973 include only those banks that were still in the national banking system at year end 1974.

AVERAGES: Averages were calculated using the figures from each Report of Condition filed during the year plus the preceding year end. Three period averages are used for those banks submitting a consolidated foreign and domestic report in 1975 and prior since those reports were filed on a semi-annual basis only.

13c. This ratio is on a domestic only basis for 1975 and prior.

15. Data for 1975 and prior is unedited.

Comptroller of the Currency
Administrator of National Banks

Washington, D. C. 20219

May 5, 1978

The Honorable William Proxmire
Chairman
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

On April 6, 1978, we furnished you with a recomputation of the June 30, 1977, Schedule A-3, previously provided to you by the Federal Deposit Insurance Corporation. This recomputation was on a fully consolidated foreign and domestic basis.

Attached you will find an update of this schedule with December 30, 1977, data substituted for June 30, 1977.

Sincerely,

John G. Heimann
Comptroller of the Currency

MAY 11 1978

NATIONAL BANKS
1972-1977

DATE	TOTAL	TOTAL DEPOSITS IN FOREIGN AND DOMESTIC OFFICES				
		0-100 MILLION	100-500 MILLION	500 MILLION-1 BILLION	1-5 BILLION	OVER 5 BILLION
NUMBER OF BANKS						
12-31-72	4491.	4073.	306.	56.	46.	10.
12-31-73	4597.	4140.	341.	58.	47.	11.
12-31-74	4706.	4218.	369.	59.	49.	11.
12-31-75	4745.	4213.	406.	64.	51.	11.
12-31-76	4738.	4164.	442.	63.	58.	11.
12-31-77	4656.	4031.	475.	74.	65.	11.
5A TOTAL EQUITY & DEBT CAPITAL (IN MILLIONS)						
12-31-72	30112.	7128.	5147.	3188.	5888.	8762.
12-31-73	33011.	7911.	5806.	3374.	6189.	9730.
12-31-74	35877.	8669.	6393.	3599.	6835.	10390.
12-31-75	39069.	9135.	6879.	3869.	7622.	11565.
12-31-76	44047.	9748.	7700.	3870.	9069.	13561.
12-31-77	48014.	10103.	8066.	4565.	10367.	14913.
5B PERCENTAGE OF EQUITY CAPITAL TO TOTAL ASSETS						
12-31-72	5.78	7.02	6.43	6.51	5.41	4.79
12-31-73	5.44	7.15	6.36	6.18	5.05	4.25
12-31-74	5.33	7.41	6.60	6.27	5.12	3.86
12-31-75	5.61	7.42	6.66	6.50	5.51	4.25
12-31-76	5.87	7.73	6.92	6.52	5.78	4.59
12-31-77	5.65	7.63	6.78	6.41	5.60	4.36
5C PERCENTAGE OF EQUITY CAPITAL TO TOTAL DEPOSITS						
12-31-72	6.87	7.89	7.47	7.80	6.75	5.77
12-31-73	6.59	8.10	7.53	7.60	6.56	5.19
12-31-74	6.46	8.45	7.85	7.82	6.67	4.67
12-31-75	6.79	8.48	7.86	7.98	7.10	5.17
12-31-76	7.10	8.61	8.03	7.96	7.47	5.66
12-31-77	6.88	8.50	7.88	7.86	7.25	5.43
5D PERCENTAGE OF DEBT CAPITAL TO TOTAL CAPITAL						
12-31-72	6.91	2.68	5.76	7.41	12.59	7.03
12-31-73	6.65	3.11	6.64	7.80	12.73	5.26
12-31-74	6.38	3.13	5.72	8.29	12.56	4.78
12-31-75	5.91	3.29	5.64	6.84	11.36	4.25
12-31-76	6.19	3.40	5.70	7.04	11.07	4.99
12-31-77	6.32	3.50	6.03	9.53	10.50	4.50

NATIONAL BANKS
1972-1977

	DATE	TOTAL	TOTAL DEPOSITS IN FOREIGN AND DOMESTIC OFFICES				
			0-100 MILLION	100-500 MILLION	500 MILLION-1 BILLION	1-5 BILLION	OVER 5 BILLION
5E	PERCENTAGE OF TOTAL CAPITAL TO TOTAL ASSETS						
	12-31-72	6.21	7.22	6.82	7.03	6.19	5.15
	12-31-73	5.82	7.38	6.81	6.70	5.78	4.48
	12-31-74	5.69	7.64	7.00	6.84	5.86	4.05
	12-31-75	5.96	7.67	7.05	6.98	6.21	4.44
	12-31-76	6.25	8.00	7.34	7.01	6.50	4.83
	12-31-77	6.03	7.91	7.21	7.09	6.25	4.56
5F	PERCENTAGE OF TOTAL CAPITAL TO TOTAL LIABILITIES						
	12-31-72	6.68	7.84	7.39	7.63	6.66	5.48
	12-31-73	6.24	8.04	7.38	7.25	6.19	4.73
	12-31-74	6.09	8.35	7.60	7.41	6.28	4.26
	12-31-75	6.40	8.38	7.66	7.57	6.69	4.68
	12-31-76	6.67	8.70	7.92	7.54	6.95	5.07
	12-31-77	6.41	8.59	7.77	7.63	6.67	4.78
5G	PERCENTAGE OF TOTAL CAPITAL TO RISK ASSETS						
	12-31-72	8.62	10.17	9.32	9.46	8.41	7.28
	12-31-73	7.92	10.09	9.03	8.70	7.72	6.26
	12-31-74	7.57	10.22	9.22	8.87	7.65	5.47
	12-31-75	8.22	10.60	9.63	9.25	8.52	6.20
	12-31-76	8.67	11.04	10.04	9.35	9.13	6.74
	12-31-77	8.30	10.72	9.80	9.49	8.82	6.31
9A	TOTAL LOANS (EXCLUDING FEDERAL FUNDS) (IN MILLIONS)						
	12-31-72	255860.	49015.	38558.	23911.	50694.	93682.
	12-31-73	307366.	54910.	45410.	27577.	57649.	121820.
	12-31-74	350968.	58531.	48510.	28386.	63560.	151981.
	12-31-75	353702.	60028.	49293.	29178.	62889.	152314.
	12-31-76	372477.	61791.	52022.	27922.	68849.	161893.
	12-31-77	429236.	67762.	57713.	33354.	83571.	186837.
9B	PERCENTAGE OF TOTAL LOANS TO TOTAL DEPOSITS						
	12-31-72	62.70	55.72	59.41	63.20	66.45	66.39
	12-31-73	65.74	58.06	63.11	67.37	69.99	68.56
	12-31-74	67.50	58.87	63.14	67.22	70.92	71.74
	12-31-75	65.32	57.60	59.68	64.57	66.11	71.05
	12-31-76	63.97	56.53	57.52	61.75	63.77	70.59
	12-31-77	65.65	59.10	59.99	63.52	65.32	71.17

1972-1977

	DATE	TOTAL	0-100 MILLION	100-500 MILLION	500 MILLION-1 BILLION	1-5 BILLION	OVER 5 BILLION
			TOTAL DEPOSITS IN FOREIGN AND DOMESTIC OFFICES				
9C	PERCENTAGE OF NET LOAN LOSSES TO AVERAGE TOTAL LOANS						
	12-31-72	0.22	0.22	0.23	0.32	0.24	0.19
	12-31-73	0.25	0.23	0.24	0.23	0.25	0.27
	12-31-74	0.36	0.35	0.38	0.47	0.48	0.28
	12-31-75	0.60	0.50	0.57	0.65	0.57	0.65
	12-31-76	0.60	0.39	0.53	0.61	0.66	0.67
	12-31-77	0.42	0.31	0.33	0.36	0.49	0.47
10A	TOTAL 30 DAY AVERAGE BORROWINGS (IN MILLIONS)						
	12-31-72	27627.	748.	3108.	2852.	8920.	11999.
	12-31-73	42728.	1304.	4579.	4158.	13568.	19120.
	12-31-74	42321.	1667.	4956.	4716.	13914.	17067.
	12-31-75	43758.	1543.	4803.	4450.	13730.	19232.
	12-31-76	59047.	1586.	6052.	5374.	19211.	26824.
	12-31-77	71760.	1650.	6215.	6364.	23160.	34372.
10B	PERCENTAGE OF 30 DAY AVERAGE BORROWINGS TO 30 DAY AVERAGE DEPOSITS						
	12-31-72	6.98	0.86	4.97	7.83	12.20	8.75
	12-31-73	9.41	1.41	6.59	10.59	17.34	10.96
	12-31-74	8.37	1.71	6.68	11.70	16.25	8.21
	12-31-75	8.32	1.52	6.09	10.20	15.13	9.12
	12-31-76	10.40	1.47	6.83	12.31	18.54	12.00
	12-31-77	11.37	1.46	6.68	12.76	19.04	13.52
12	TOTAL OTHER REAL ESTATE (IN MILLIONS)						
	12-31-72	169.	46.	32.	23.	38.	28.
	12-31-73	226.	50.	41.	22.	60.	53.
	12-31-74	393.	81.	79.	54.	122.	56.
	12-31-75	1060.	123.	191.	136.	350.	260.
	12-31-76	1770.	155.	226.	192.	595.	602.
	12-31-77	1913.	153.	203.	168.	635.	755.
13A	PERCENTAGE OF NET INCOME TO AVERAGE TOTAL ASSETS						
	12-31-72	0.74	0.90	0.83	0.83	0.73	0.59
	12-31-73	0.73	0.96	0.79	0.83	0.69	0.58
	12-31-74	0.67	0.91	0.77	0.73	0.63	0.54
	12-31-75	0.67	0.84	0.72	0.72	0.68	0.56
	12-31-76	0.69	0.92	0.78	0.75	0.67	0.56
	12-31-77	0.70	0.96	0.85	0.79	0.69	0.53

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NATIONAL BANKS
1972-1977

DATE	TOTAL	TOTAL DEPOSITS IN FOREIGN AND DOMESTIC OFFICES: 0-100 MILLION	100-500 MILLION	500 MILLION-1 BILLION	1-5 BILLION	OVER 5 BILLION
3B PERCENTAGE OF NET INCOME TO AVERAGE EQUITY CAPITAL						
12-31-72	12.34	12.51	12.50	12.44	12.83	11.73
12-31-73	12.77	13.12	12.11	12.90	13.12	12.63
12-31-74	12.49	12.31	11.64	11.67	12.43	13.46
12-31-75	12.07	11.22	10.74	11.03	12.49	13.66
12-31-76	11.70	11.74	11.05	11.20	11.40	12.37
12-31-77	11.96	12.23	12.21	11.91	11.82	11.75
3C PERCENTAGE OF NET INTEREST MARGIN TO AVERAGE EARNING ASSETS						
12-31-72	3.49	3.78	3.66	3.63	3.53	3.04
12-31-73	3.51	3.93	3.66	3.71	3.47	3.03
12-31-74	3.60	4.05	3.78	3.83	3.60	3.09
12-31-75	3.69	3.94	3.88	3.97	3.68	3.30
12-31-76	3.59	4.12	4.03	4.07	3.58	3.10
12-31-77	3.55	4.20	4.09	4.07	3.56	2.99
5 TOTAL STANDBY LETTERS OF CREDIT (IN MILLIONS)						
12-31-72	0.	0.	0.	0.	0.	0.
12-31-73	2598.	0.	28.	310.	1125.	1134.
12-31-74	7196.	2.	45.	237.	1137.	5774.
12-31-75	8286.	250.	371.	348.	1168.	6149.
12-31-76	10527.	175.	418.	382.	1239.	8313.
12-31-77	13549.	209.	479.	506.	1719.	10635.

SOURCE: Reports of Condition, Reports of Income, and Special Reports.

FOOTNOTES:

Number of banks: Statistics for 1972 and 1973 include only those banks that were still in the national banking system at year end 1974.

AVERAGES: Averages were calculated using the figures from each Report of Condition filed during the year plus the preceding year end. Three period averages are used for those banks submitting a consolidated foreign and domestic report in 1975 and prior since those reports were filed on a semi-annual basis only.

13c. This ratio is on a domestic only basis for 1975 and prior.

15. Data for 1975 and prior is unedited.

Comptroller of the Currency
Administrator of National Banks

Washington, D.C. 20219

May 22, 1978

The Honorable William Proxmire
Chairman
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

The attached samples of National Bank Surveillance System (NBSS) printouts and a glossary of terms are provided for the hearings on the Condition of the Banking System on May 25, 1978.

Sincerely,

John G. Heimann
Comptroller of the Currency

Pages 1 - 22. Sample NBSS Bank Performance Report

Pages 23 -25. Glossary of NBSS Significant Ratios

Page 26 - 27. Sample NBSS Action Control Status Report

INFORMATION

INTRODUCTION

THIS NBSS BANK PERFORMANCE REPORT COVERS THE OPERATIONS OF YOUR BANK AND THAT OF A COMPARABLE GROUP OF PEER BANKS. IT IS PROVIDED FOR YOUR USE AS A MANAGEMENT TOOL BY THE COMPTROLLER OF THE CURRENCY. DETAILED INFORMATION CONCERNING THIS REPORT IS PROVIDED IN : USER'S GUIDE FOR BANKERS AND EXAMINERS FORWARDED TO YOUR BANK UNDER SEPARATE COVER.

YOUR PEER GROUP # 17
INCLUDES NATIONAL BANKS HAVING ASSETS GREATER THAN $10 MILLION AND LESS THAN OR EQUAL TO $20 MILLION AT 12/31/76 AND LOCATED IN AN AREA NOT CONSIDERED TO BE A HIGH DENSITY POPULATION AREA (SMSA).

ADDRESSEE:

CHIEF EXECUTIVE OFFICER

* * * SPECIAL NOTE * * *

PEER GROUP AVERAGES AND PERCENTILE RANKING FOR THE CURRENT PERIOD ARE BASED UPON A STATISTICAL SAMPLE OF AT LEAST 50 PERCENT. ALL PRIOR PERIOD PEER GROUP AVERAGES AND PERCENTILE RANKING ARE CALCULATED USING 100 PERCENT OF THE PEER GROUP.

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AMENDED RATIO DEFINITIONS - SEE LAST PAGE

03/16/78

SIGNIFICANT RATIOS
(DOLLARS IN THOUSANDS)

PAGE

ANNUAL DATA

THIS BANK	1972 *	1973 *	1974 *	1975 *	1976 *	1977 *
AVERAGE ASSETS	$ 8600	$ 10017	$ 11291	$ 11833	$ 12035	$ 13224
NET INCOME	$ 69	$ 104	$ 79	$ 31	$ -11	$ 101
RETURN ON AVERAGE ASSETS	.80 34	1.04 43	.70 15	.26 04	-.09 01	.76 16
ADJUSTED RETURN ON AVERAGE ASSETS	.92 48	.99 42	.69 15	.26 04	-.16 01	.73 12
PRE-TAX NET OPER INCOME - TAX EQ.	1.49 44	1.72 42	1.27 18	.34 04	-.10 02	.93 08
NET INTEREST EARNINGS/AVERAGE ASSETS	3.98 66	3.83 40	3.58 19	3.00 06	2.83 03	3.23 07
OTHER EARNINGS/AVERAGE ASSETS	.23 31	.47 76	.47 75	.42 67	.40 66	.58 84
NON-INTEREST EXPENSE/AVERAGE ASSETS	2.58 69	2.61 68	2.68 68	2.64 64	2.83 67	2.73 67
PROV POSS LOAN LOSSES/AVERAGE ASSETS	.14 67	-.03 03	.10 55	.45 91	.50 92	.15 61
ASSET GROWTH RATE	8.27 15	15.65 55	11.45 62	.34 06	4.84 24	14.66 69
CHANGE IN ASSET MIX	17.76 70	20.10 72	12.73 45	9.54 27	12.73 48	25.30 90
CHANGE IN LOAN MIX	33.27 92	21.52 81	20.74 80	13.37 60	18.62 74	30.09 95
CHANGE IN LIABILITY MIX	16.34 94	5.49 50	2.92 17	3.88 18	5.20 20	2.59 15
RETAINED EARNINGS**/AVG. EQ CAPITAL	8.85 48	12.22 63	8.31 31	2.77 08	-1.65 02	9.38 41
ASSETS/TOTAL CAPITAL (X) ***	12.18 34	12.52 36	12.64 44	11.92 34	12.40 47	12.93 59

PEER GROUP 17 (719 BANKS)

	1972	1973	1974	1975	1976	1977
RETURN ON AVERAGE ASSETS	.93	1.10	1.11	1.04	1.10	1.12
ADJUSTED RETURN ON AVERAGE ASSETS	.92	1.05	1.09	1.05	1.08	1.11
PRE-TAX NET OPER INCOME - TAX EQ.	1.57	1.89	2.01	1.74	1.78	1.86
NET INTEREST EARNINGS/AVERAGE ASSETS	3.73	4.04	4.26	4.02	4.18	4.21
OTHER EARNINGS/AVERAGE ASSETS	.37	.36	.37	.39	.37	.36
NON-INTEREST EXPENSE/AVERAGE ASSETS	2.39	2.37	2.45	2.49	2.60	2.55
PROV POSS LOAN LOSSES/AVERAGE ASSETS	.14	.13	.16	.17	.17	.17
ASSET GROWTH RATE	15.46	15.48	10.24	11.80	9.25	12.01
CHANGE IN ASSET MIX	15.06	16.06	15.72	15.90	15.00	14.29
CHANGE IN LOAN MIX	14.05	14.22	14.96	14.80	14.86	12.15
CHANGE IN LIABILITY MIX	6.14	6.86	8.60	10.63	11.10	7.27
RETAINED EARNINGS**/AVG. EQ CAPITAL	8.60	10.87	10.88	9.74	10.09	10.13
ASSETS/TOTAL CAPITAL (X) ***	13.52	13.49	13.11	13.16	12.65	12.48

*THIS COLUMN DENOTES RELATIVE POSITION OF THIS BANK WITHIN PEER GROUP.
**NET INCOME LESS CASH DIVIDENDS.
***END OF PERIOD.

03/16/78

CONSOLIDATED TREND OF CONDITION
(END OF PERIOD DOLLARS IN THOUSANDS)

ASSETS	12/31/73	12/31/74	12/31/75	12/31/76	PRIOR-QTR 09/30/77	CURR QTR 12/31/77
CASH & DUE FROM BANKS	$ 978	$ 929	$ 935	$ 1042	$ 1272	$ 1141
INTEREST BEARING BANK BALANCES	N/A	N/A	N/A	$ 0	$ 0	$ 0
SUBTOTAL	$ 978	$ 929	$ 935	$ 1042	$ 1272	$ 1141
U.S. TREASURY & AGENCY	$ 2781	$ 2677	$ 2674	$ 3715	$ 3063	$ 2963
MUNICIPAL SECURITIES	$ 1367	$ 1367	$ 1048	$ 891	$ 791	$ 788
SECURITIES HELD IN FOREIGN OFFICES	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
OTHER SECURITIES	$ 457	$ 502	$ 398	$ 338	$ 315	$ 266
TOTAL INVESTMENT SECURITIES	$ 4605	$ 4546	$ 4120	$ 4944	$ 4169	$ 4017
TRADING SECURITIES	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
FEDERAL FUNDS SOLD	$ 79	$ 190	$ 750	$ 0	$ 700	$ 700
REAL ESTATE LOANS	$ 1180	$ 1634	$ 1856	$ 2504	$ 4030	$ 4302
COMMERCIAL & INDUSTRIAL LOANS	$ 1975	$ 2362	$ 2337	$ 2125	$ 2164	$ 1824
LOANS TO INDIVIDUALS	$ 1316	$ 1343	$ 1209	$ 1137	$ 1412	$ 1384
LOANS IN FOREIGN OFFICES	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
OTHER LOANS	$ 11	$ 156	$ 2	$ 27	$ 159	$ 206
LESS:						
UNEARNED INCOME	N/A	N/A	N/A	$ 47	$ 26	$ 16
RESERVE FOR POSSIBLE LOAN LOSSES	N/A	N/A	N/A	$ 21	$ 40	$ 44
LOANS - NET	$ 4482	$ 5495	$ 5404	$ 5725	$ 7699	$ 7656
DIRECT LEASE FINANCING	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
PREMISES	$ 185	$ 269	$ 262	$ 278	$ 269	$ 280
OTHER REAL ESTATE OWNED	$ 3	$ 77	$ 63	$ 61	$ 61	$ 61
INVESTMENT - UNCONSOLIDATED SUBSID.	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
ACCEPTANCES	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
INCOME EARNED NOT COLLECTED	N/A	N/A	$ 227	$ 284	$ 229	$ 276
OTHER ASSETS	$ 206	$ 239	$ 24	$ 21	$ 35	$ 35
TOTAL ASSETS	$ 10538	$ 11745	$ 11785	$ 12355	$ 14434	$ 14166

03/16/78

CONSOLIDATED TREND OF CONDITION
(END OF PERIOD DOLLARS IN THOUSANDS)

LIABILITIES & CAPITAL		12/31/73		12/31/74		12/31/75		12/31/76		PRIOR-QTR 09/30/77		CURR QTR 12/31/77
DEMAND DEPOSITS:												
INDIVIDUAL PARTNER & CORPORATION	$	1987	$	2044	$	2338	$	2252	$	2303	$	1924
PUBLIC FUNDS	$	518	$	654	$	182	$	177	$	314	$	939
BANKS	$	0	$	0	$	0	$	0	$	0	$	0
FOREIGN BANKS	$	0	$	0	$	0	$	0	$	0	$	0
OTHER	$	40	$	31	$	40	$	52	$	342	$	142
TOTAL DEMAND DEPOSITS	$	2545	$	2729	$	2560	$	2481	$	2959	$	3005
TIME & SAVINGS DEPOSITS:												
INDIVIDUAL PARTNER & CORPORATION	$	6308	$	7210	$	7779	$	8278	$	8938	$	9367
PUBLIC FUNDS	$	619	$	681	$	323	$	565	$	1437	$	639
BANKS	$	0	$	0	$	0	$	0	$	0	$	0
FOREIGN BANKS	$	0	$	0	$	0	$	0	$	0	$	0
TOTAL TIME & SAVINGS DEPOSITS	$	6927	$	7891	$	8102	$	8843	$	10375	$	10006
DEPOSITS IN FOREIGN OFFICES	$	0	$	0	$	0	$	0	$	0	$	0
TOTAL DEPOSITS	$	9472	$	10620	$	10662	$	11324	$	13334	$	13011
FEDERAL FUNDS PURCHASED	$	0	$	0	$	0	$	0	$	0	$	0
OTHER BORROWINGS	$	0	$	0	$	0	$	0	$	0	$	0
ACCEPTANCES	$	0	$	0	$	0	$	0	$	0	$	0
OTHER LIABILITIES	$	169	$	144	$	105	$	35	$	71	$	59
TOTAL LIABILITIES	$	9641	$	10764	$	10767	$	11359	$	13405	$	13070
RESERVES (1975 & PRIOR YEARS)	$	55	$	52	$	29		N/A		N/A		N/A
SUBORDINATED DEBT	$	0	$	0	$	0	$	0	$	0	$	0
EQUITY CAPITAL	$	842	$	929	$	989	$	996	$	1029	$	1096
TOTAL LIABILITIES & CAPITAL	$	10538	$	11745	$	11785	$	12355	$	14434	$	14166
TIME DEPOSITS ($100M OR MORE)	$	180	$	180	$	220	$	480	$	214	$	214
STANDBY LETTERS OF CREDIT	$	0	$	0	$	0	$	0	$	0	$	0

03/16/78

ASSET DISTRIBUTION
(EXPRESSED AS % OF AVERAGE ASSETS*)
(DOLLARS IN THOUSANDS)

ASSETS	ANNUAL DATA					
THIS BANK	1972	1973	1974	1975	1976	1977
CASH & DUE FROM BANKS	9.38	8.61	9.05	7.07	9.22	8.01
INTEREST BEARING BANK BALANCES	N/A	N/A	N/A	N/A	.00	.00
INVESTMENT SECURITIES	46.98	44.39	40.75	37.62	37.99	33.65
TRADING SECURITIES	.00	.00	.00	.00	.00	.00
FEDERAL FUNDS SOLD	2.97	4.67	1.26	3.70	3.32	2.41
LOANS**	37.61	39.22	44.40	46.74	44.62	51.41
DIRECT LEASE FINANCING	.00	.00	.00	.00	.00	.00
PREMISES	1.24	1.34	2.27	2.23	2.31	2.07
ACCEPTANCES	.00	.00	.00	.00	.00	.00
OTHER	1.81	1.78	2.26	2.64	2.55	2.46
TOTAL ASSETS	100.00	100.00	100.00	100.00	100.00	100.00
AVERAGE ASSETS*	$ 8600	$ 10017	$ 11291	$ 11833	$ 12035	$ 13270
ASSET GROWTH RATE	8.27	15.65	11.45	.34	4.84	14.66
SDBY L/C /AVERAGE ASSETS	.00	.00	.00	.00	.00	.00
PEER GROUP						
CASH & DUE FROM BANKS	12.35	11.23	11.03	10.90	9.72	9.18
INTEREST BEARING BANK BALANCES	N/A	N/A	N/A	N/A	.69	.46
INVESTMENT SECURITIES	34.57	33.50	32.37	32.72	33.23	32.02
TRADING SECURITIES	.00	.00	.01	.01	.00	.00
FEDERAL FUNDS SOLD	4.85	6.51	6.50	5.92	4.61	4.32
LOANS**	46.46	47.00	48.17	48.35	49.51	51.83
DIRECT LEASE FINANCING	.00	.03	.07	.06	.08	.09
PREMISES	1.34	1.36	1.41	1.46	1.49	1.44
ACCEPTANCES	.00	.00	.00	.00	.00	.00
OTHER	.33	.35	.44	.56	.65	.66
TOTAL ASSETS	99.99	99.99	99.99	99.99	99.99	100.00
ASSET GROWTH RATE	15.46	15.48	10.24	11.80	9.25	12.01
SDBY L/C /AVERAGE ASSETS	.00	.00	.00	.01	.03	.03

* THE AVERAGE OF END OF PERIOD TOTAL ASSETS.
**NET OF RESERVE FOR POSSIBLE LOAN LOSSES AND UNEARNED INCOME BEGINNING 1976.

03/16/78

LIABILITY DISTRIBUTION
(EXPRESSED AS % OF AVERAGE ASSETS*)

LIABILITIES	ANNUAL DATA					
THIS BANK	1972	1973	1974	1975	1976	1977
DEMAND DEPOSITS	29.69	26.90	24.91	23.40	21.25	21.13
TIME & SAVINGS DEPOSITS	60.01	63.27	65.43	67.06	69.97	70.66
DEPOSITS IN FOREIGN OFFICES	.00	.00	.00	.00	.00	.00
BORROWINGS	.00	.00	.00	.00	.00	.00
ACCEPTANCES	.00	.00	.00	.00	.00	.00
OTHER	1.50	1.45	1.33	1.17	.66	.49
TOTAL LIABILITIES	91.20	91.63	91.68	91.62	91.88	92.29
RESERVE (1975 & PRIOR YEARS)	.39	.37	.44	.43	.05	N/A
SUBORDINATED DEBT	.00	.00	.00	.00	.00	.00
EQUITY CAPITAL	8.41	8.00	7.88	7.95	8.07	7.71
TOTAL CAPITAL	8.41	8.00	7.88	7.95	8.07	7.71
TOTAL LIABILITIES & CAPITAL	100.00	100.00	100.00	100.00	100.00	100.00
PEER GROUP						
DEMAND DEPOSITS	40.08	39.07	37.17	34.74	32.92	31.25
TIME & SAVINGS DEPOSITS	49.43	50.40	52.07	54.48	57.35	59.04
DEPOSITS IN FOREIGN OFFICES	.00	.00	.00	.00	.00	.00
BORROWINGS	.24	.27	.33	.31	.49	.61
ACCEPTANCES	.00	.00	.00	.00	.00	.00
OTHER	1.36	1.34	1.50	1.57	.72	.53
TOTAL LIABILITIES	91.18	91.06	91.07	91.09	91.49	91.44
RESERVE (1975 & PRIOR YEARS)	.67	.65	.66	.68	.14	N/A
SUBORDINATED DEBT	.03	.07	.09	.11	.13	.13
EQUITY CAPITAL	8.11	8.22	8.11	8.11	8.24	8.43
TOTAL CAPITAL	8.14	8.29	8.20	8.22	8.37	8.56
TOTAL LIABILITIES & CAPITAL	99.99	99.99	99.99	99.99	99.99	100.00

* THE AVERAGE OF END OF PERIOD TOTAL ASSETS.

03/16/78

INVESTMENT SECURITIES INFORMATION
(EXPRESSED AS % OF SECURITIES)

PORTFOLIO MIX (BOOK VALUE)	ANNUAL DATA					
THIS BANK	1972	1973	1974	1975	1976	1977
US TREASURY & AGENCY	61.62	60.79	59.48	60.09	69.94	73.94
STATES & POLITICAL SUBDIVISIONS	28.25	28.93	30.42	29.32	21.64	19.00
SECURITIES HELD IN FOREIGN OFFICES	.00	.00	.00	.00	.00	.00
OTHER SECURITIES	10.13	10.28	10.11	10.59	8.42	7.06
TOTAL SECURITIES	100.00	100.00	100.00	100.00	100.00	100.00
AVERAGE SECURITIES	$ 4040	$ 4446	$ 4601	$ 4452	$ 4572	$ 4465
INVESTMENT SECURITIES/AVERAGE ASSETS*	46.98	44.39	40.75	37.62	37.99	33.65
PEER GROUP						
US TREASURY & AGENCY	62.24	59.92	55.16	53.07	55.18	54.79
STATES & POLITICAL SUBDIVISIONS	35.71	38.19	42.83	44.78	42.76	43.47
SECURITIES HELD IN FOREIGN OFFICES	.00	.00	.00	.00	.00	.00
OTHER SECURITIES	1.76	1.88	2.00	2.15	2.06	1.74
TOTAL SECURITIES	99.99	99.99	99.99	99.99	100.00	100.00
INVESTMENT SECURITIES/AVERAGE ASSETS*	34.57	33.50	32.37	32.72	33.23	32.02
END OF PERIOD INFORMATION						
THIS BANK						
INVESTMENT SECURITY GROWTH RATE	18.02	5.23	-1.28	-9.37	20.00	-18.75
TAXABLE SECURITIES-MARKET/BOOK VALUE	N/A	N/A	N/A	N/A	N/A	N/A
NONTAXABLE SECURITIES-MKT/BOOK VALUE	N/A	N/A	N/A	N/A	N/A	N/A
MATURITIES - ONE YEAR OR LESS	N/A	N/A	N/A	13.89	29.28	29.05
MATURITIES - ONE TO FIVE YEARS	N/A	N/A	N/A	51.29	35.78	43.93
MATURITIES - OVER FIVE YEARS	N/A	N/A	N/A	34.82	34.93	27.03
PEER GROUP						
INVESTMENT SECURITY GROWTH RATE	13.78	10.75	7.91	16.18	6.70	4.70
TAXABLE SECURITIES-MARKET/BOOK VALUE	N/A	N/A	N/A	N/A	N/A	N/A
NONTAXABLE SECURITIES-MKT/BOOK VALUE	N/A	N/A	N/A	N/A	N/A	N/A
MATURITIES - ONE YEAR OR LESS	N/A	N/A	N/A	24.43	22.66	23.82
MATURITIES - ONE TO FIVE YEARS	N/A	N/A	N/A	45.57	44.16	41.06
MATURITIES - OVER FIVE YEARS	N/A	N/A	N/A	29.71	33.18	35.12

NOTE: 1975 MATURITY INFORMATION DOES NOT INCLUDE OTHER BONDS, NOTES, AND DEBENTURES.
* THE AVERAGE OF END OF PERIOD TOTAL ASSETS.

03/16/78

LOAN MIX
(EXPRESSED AS % OF AVERAGE GROSS LOANS)
(DOLLARS IN THOUSANDS)

	ANNUAL DATA					
THIS BANK	1972	1973	1974	1975	1976	1977
CONSTRUCTION & LAND DEVELOPMENT	N/A	N/A	N/A	N/A	2.59	3.63
1-4 FAMILY RESIDENTIAL	13.27	18.46	21.13	23.53	30.54	33.79
ALL OTHER	8.63	6.83	8.21	7.91	9.65	12.25
TOTAL REAL ESTATE LOANS	21.91	25.30	29.35	31.44	42.79	49.68
REIT & MORTGAGE COMPANIES	N/A	N/A	N/A	N/A	.00	.00
ALL OTHER FINANCIAL INSTITUTIONS	.00	.00	.00	.00	.00	.00
TOTAL FINANCIAL INSTITUTIONS	.00	.00	.00	.00	.00	.00
PURCHASE & CARRY SECURITIES	.00	.00	.00	.00	.00	.21
FARM	11.90	10.68	13.78	16.80	15.42	12.89
COMMERCIAL	27.18	27.77	30.48	27.36	20.87	16.84
INDIVIDUALS	33.81	36.02	25.07	23.38	20.63	18.83
OTHER DOMESTIC LOANS	5.20	.22	1.32	1.01	.18	1.55
LOANS IN FOREIGN OFFICES	.00	.00	.00	.00	.00	.00
AVERAGE GROSS LOANS	$ 3235	$ 3903	$ 4952	$ 5495	$ 5448	$ 6889
LESS: DOM UNEARNED INCOME BEG 1976	N/A	N/A	N/A	N/A	$ 63	$ 35
AVERAGE TOTAL LOANS	$ 3235	$ 3903	$ 4952	$ 5495	$ 5385	$ 6854
AVERAGE TOTAL LOANS/AVERAGE ASSETS*	37.61	39.22	44.40	46.74	44.78	51.65
LOAN GROWTH RATE	-2.51 05	39.28 91	22.60 80	-1.66 10	6.33 22	34.01 91
PEER GROUP						
CONSTRUCTION & LAND DEVELOPMENT	N/A	N/A	N/A	N/A	1.07	1.15
1-4 FAMILY RESIDENTIAL	15.49	16.14	16.66	17.11	17.17	17.98
ALL OTHER	10.83	10.98	11.05	11.37	11.20	11.23
TOTAL REAL ESTATE LOANS	26.32	27.13	27.71	28.48	29.45	30.35
REIT & MORTGAGE COMPANIES	N/A	N/A	N/A	N/A	.03	.02
ALL OTHER FINANCIAL INSTITUTIONS	.69	.53	.43	.31	.20	.19
TOTAL FINANCIAL INSTITUTIONS	.76	.53	.43	.31	.23	.21
PURCHASE & CARRY SECURITIES	.34	.28	.26	.26	.19	.15
FARM	27.76	26.90	26.51	26.04	25.46	25.45
COMMERCIAL	16.48	16.54	16.92	17.21	16.86	16.72
INDIVIDUALS	26.88	27.24	26.55	26.24	25.88	25.39
OTHER DOMESTIC LOANS	1.45	1.38	1.39	1.38	1.86	1.73
LOANS IN FOREIGN OFFICES	.00	.00	.00	.00	.00	.00
AVERAGE TOTAL LOANS/AVERAGE ASSETS*	46.46	47.00	48.17	48.35	49.90	52.31
LOAN GROWTH RATE	16.06	18.46	12.62	12.58	15.49	18.01

* THE AVERAGE OF END OF PERIOD TOTAL ASSETS.

03/16/78

DEPOSIT DISTRIBUTION
(EXPRESSED AS % OF AVERAGE DEPOSITS)
(DOLLARS IN THOUSANDS)

	ANNUAL DATA					
THIS BANK	1972	1973	1974	1975	1976	1977
INDIVIDUAL PARTNER & CORPORATION	24.37	21.49	19.60	19.72	20.79	18.64
OTHER	8.72	8.34	7.97	6.15	2.50	4.38
SUBTOTAL: DOMESTIC DEMAND DEPOSITS	33.10	29.84	27.58	25.87	23.30	23.02
SAVINGS	15.59	15.88	16.06	17.21	20.41	25.05
OTHER TIME DEPOSITS:						
$100M & OVER	N/A	1.99	1.76	1.87	2.67	2.18
UNDER $100M	N/A	52.29	54.60	55.06	53.62	49.75
SUBTOTAL: DOM TIME & SAV DEPOSITS	66.90	70.16	72.42	74.13	76.70	76.98
DEPOSITS IN FOREIGN OFFICES	.00	.00	.00	.00	.00	.00
TOTAL DEPOSITS	100.00	100.00	100.00	100.00	100.00	100.00
AVERAGE DEPOSITS	$ 7715	$ 9033	$ 10201	$ 10703	$ 10978	$ 12181
DEPOSIT GROWTH RATE	8.75	15.27	12.12	.40	6.21	14.90
PUBLIC FUNDS - DEMAND	8.05	7.46	7.58	5.67	1.98	3.35
PUBLIC FUNDS - TIME & SAVINGS	4.60	7.05	5.55	4.47	2.28	5.26
PEER GROUP						
INDIVIDUAL PARTNER & CORPORATION	37.00	36.69	35.38	33.13	31.28	29.74
OTHER	7.78	6.97	6.34	5.69	5.08	4.84
SUBTOTAL: DOMESTIC DEMAND DEPOSITS	44.87	43.75	41.72	39.00	36.55	34.71
SAVINGS	19.31	19.52	19.97	21.24	23.37	25.04
OTHER TIME DEPOSITS:						
$100M & OVER	N/A	7.71	6.94	6.57	5.36	5.40
UNDER $100M	N/A	31.64	32.83	34.20	34.72	34.85
SUBTOTAL: DOM TIME & SAV DEPOSITS	55.13	56.25	58.27	61.00	63.45	65.29
DEPOSITS IN FOREIGN OFFICES	.00	.00	.00	.00	.00	.00
TOTAL DEPOSITS	99.99	99.99	99.99	99.99	99.99	100.00
DEPOSIT GROWTH RATE	16.16	15.22	9.77	11.84	10.91	12.24
PUBLIC FUNDS - DEMAND	6.76	6.01	5.42	4.81	4.22	4.03
PUBLIC FUNDS - TIME & SAVINGS	4.10	4.68	5.06	5.31	5.42	5.75

03/16/78

INCOME STATEMENT - TAX EQUIVALENT
(DOLLARS IN THOUSANDS)

	ANNUAL DATA					
	1972	1973	1974	1975	1976	1977
TOTAL INTEREST INCOME	$ 544	$ 654	$ 748	$ 786	$ 818	$ 943
MUNICIPAL SECURITY TAX BENEFIT	$ 46	$ 58	$ 65	$ 15	$ 0	$ 22
TOTAL INTEREST INCOME - TAX EQUIV.	$ 590	$ 712	$ 813	$ 801	$ 818	$ 965
INTEREST EXPENSE	$ 248	$ 329	$ 409	$ 446	$ 477	$ 538
NET INTEREST EARNINGS TAX EQUIV.	$ 342	$ 383	$ 404	$ 355	$ 341	$ 427
OTHER EARNINGS	$ 20	$ 47	$ 53	$ 50	$ 48	$ 77
NON-INTEREST EXPENSE	$ 222	$ 261	$ 303	$ 312	$ 341	$ 361
PROVISION FOR POSS. LOAN LOSSES	$ 12	$ -3	$ 11	$ 53	$ 60	$ 20
PRE-TAX NET OPER INCOME - TAX EQ.	$ 128	$ 172	$ 143	$ 40	$ -12	$ 123
APPLICABLE INCOME TAXES	$ 15	$ 10	$ 0	$ 0	$ 0	$ 0
MUNICIPAL SECURITY TAX BENEFIT	$ 46	$ 58	$ 65	$ 15	$ 0	$ 22
APPLICABLE INCOME TAXES - TAX EQUIV.	$ 61	$ 68	$ 65	$ 15	$ 0	$ 22
NET OPERATING INCOME AFTER TAXES	$ 67	$ 104	$ 78	$ 25	$ -12	$ 101
NET SECURITIES GAINS/(LOSSES)	$ 0	$ 0	$ 1	$ 6	$ 1	$ 0
NET EXTRAORDINARY GAINS/(LOSSES)	$ 2	$ 0	$ 0	$ 0	$ 0	$ 0
NET INCOME	$ 69	$ 104	$ 79	$ 31	$ -11	$ 101
CASH DIVIDENDS	$ 5	$ 6	$ 5	$ 5	$ 5	$ 5
INCOME AFTER DIVIDENDS	$ 64	$ 98	$ 74	$ 26	$ -16	$ 96

03/16/78

NET INCOME COMPONENTS
(EXPRESSED AS A % OF AVERAGE ASSETS)

ANNUAL DATA

	1972	1973	1974	1975	1976	1977
TOTAL INTEREST INCOME - TAX EQ.	6.87 89 6.12	7.11 83 6.60	7.20 52 7.21	6.77 26 7.13	6.80 12 7.47	7.30 29 7.62
TOTAL INTEREST EXPENSE	2.88 78 2.37	3.28 88 2.51	3.62 83 2.93	3.77 85 3.10	3.96 84 3.29	4.07 86 3.40
NET INTEREST EARNINGS - TAX EQ.	3.98 66 3.73	3.83 40 4.04	3.58 19 4.26	3.00 06 4.02	2.83 03 4.18	3.23 07 4.21
OTHER EARNINGS	.23 31 .37	.47 76 .36	.47 75 .37	.42 67 .39	.40 66 .37	.58 84 .36
NON-INTEREST EXPENSE	2.58 69 2.39	2.61 68 2.37	2.68 68 2.45	2.64 64 2.49	2.83 67 2.60	2.73 67 2.55
PROVISION FOR POSSIBLE LOAN LOSSES	.14 67 .14	-.03 03 .13	.10 55 .16	.45 91 .17	.50 92 .17	.15 61 .17
PRE-TAX NET OPER INCOME - TAX EQ.	1.49 44 1.57	1.72 42 1.89	1.27 18 2.01	.34 04 1.74	-.10 02 1.78	.93 08 1.86
APPLICABLE INCOME TAXES - TAX EQ.	.72 57 .67	.68 40 .79	.58 23 .89	.13 06 .72	.00 01 .73	.17 04 .76
NET OPERATING INCOME - AFTER TAXES	.78 34 .89	1.04 44 1.10	.69 14 1.12	.21 04 1.02	-.10 02 1.06	.76 17 1.09
NET SECURITIES GAINS/(LOSSES)	.00	.00	.01	.05	.01	.00
NET EXTRAORDINARY GAINS/(LOSSES)	.02	.00	.00	.00	.00	.00
NET INCOME - RETURN ON ASSETS	.80 34 .94	1.04 43 1.10	.70 15 1.11	.26 04 1.04	-.09 01 1.10	.76 16 1.12
SUPPLEMENTAL INFORMATION - RESULTS FROM OPERATIONS						
TOTAL OPERATING INCOME - TAX EQ.	7.10 82 6.47	7.58 84 6.91	7.67 60 7.56	7.20 32 7.52	7.20 18 7.83	7.88 47 7.98
TOTAL OPERATING EXPENSES	5.60 80 4.90	5.86 82 5.02	6.40 81 5.55	6.85 88 5.77	7.30 92 6.05	6.95 83 6.12
PRE-TAX NET OPER INCOME - TAX EQ.	1.49 44 1.57	1.72 42 1.89	1.27 18 2.01	.34 04 1.74	-.10 02 1.78	.93 08 1.86

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INTEREST INCOME COMPONENTS
(DOLLARS IN THOUSANDS)

ANNUAL DATA

INCOME ON EARNING ASSETS	1972	1973	1974	1975	1976	1977
INTEREST & FEES ON LOANS	$ 253	$ 319	$ 413	$ 450	$ 479	$ 623
FEDERAL FUNDS SOLD & RESALES	$ 19	$ 30	$ 19	$ 19	$ 22	$ 15
INTEREST ON DUE FROM BANKS	N/A	N/A	N/A	N/A	$ 0	$ 0
INVESTMENT INTEREST INCOME:						
US GOVERNMENT & AGENCY	$ 181	$ 198	$ 200	$ 204	$ 237	$ 236
MUNICIPAL SECURITIES	$ 59	$ 71	$ 78	$ 75	$ 51	$ 45
MUNICIPAL SECURITY TAX BENEFIT	$ 46	$ 58	$ 65	$ 15	$ 0	$ 22
OTHER SECURITIES	$ 32	$ 36	$ 38	$ 38	$ 29	$ 24
TRADING ACCOUNT INCOME	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
DIRECT LEASE FINANCING INCOME	N/A	N/A	N/A	N/A	$ 0	$ 0
TOTAL INTEREST INCOME - TAX EQ.	$ 590	$ 712	$ 813	$ 801	$ 818	$ 965

YIELD ON:

	1972	1973	1974	1975	1976	1977
LOANS	7.87 56	8.13 59	8.26 45	8.16 23	8.70 38	8.75 32
	7.89	7.98	8.48	8.85	9.08	9.22
ADJUSTED LOAN YIELD*	7.50 47	8.20 74	8.04 46	7.20 06	7.61 10	8.47 29
	7.59	7.70	8.14	8.53	8.76	8.91
DUE FROM BANKS	N/A	N/A	N/A	N/A	N/A	N/A
	N/A	N/A	N/A	N/A	6.46	6.46
MUNICIPAL SECURITIES	5.17	5.52	5.57	5.75	5.16	5.30
	4.32	4.34	4.54	4.94	5.15	5.08
MUNICIPAL SECURITIES-TAX EQ.	9.24 89	10.07 93	10.25 93	6.93 20	5.16 02	7.96 28
	7.27	7.42	7.97	8.14	8.62	8.67
TAXABLE SECURITIES	7.35 95	7.41 94	7.43 81	7.69 83	7.42 66	7.19 56
	5.76	6.10	6.82	6.90	7.11	7.03
TOTAL INTEREST INC-TAX EQ/AVG. ASSETS	6.87 89	7.11 83	7.20 52	6.77 25	6.80 12	7.30 29
	6.12	6.60	7.21	7.13	7.47	7.62

COMPOSITE EARNING ASSETS: (INCLUDES ALL INCOME PRODUCING BALANCE SHEET ACCOUNTS AS LISTED ABOVE)

	1972	1973	1974	1975	1976	1977
AVERAGE EARNING ASSETS/AVERAGE ASSETS	87.33 54	88.24 52	86.29 35	87.90 50	88.38 40	89.56 48
	85.91	87.05	87.05	86.94	88.77	89.27
YIELD ON AVERAGE EARNING ASSETS	7.86 86	8.06 79	8.35 56	7.71 25	7.69 15	8.15 30
	7.11	7.54	8.27	8.21	8.42	8.54

NOTE: PRIOR TO 1976, ALL RATIOS AND INTEREST FIGURES IN THIS ANALYSIS ARE BASED ON DOMESTIC ONLY INFORMATION.
* INTEREST AND FEES ON LOANS LESS PROVISION FOR POSSIBLE LOAN LOSSES/AVERAGE TOTAL LOANS.

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INTEREST EXPENSE COMPONENTS
(DOLLARS IN THOUSANDS)

ANNUAL DATA

	1972	1973	1974	1975	1976	1977
INTEREST EXPENSE:						
DOM TIME CD'S - $100M OR MORE	N/A	N/A	N/A	N/A	$ 14	$ 7
OTHER DEPOSITS	$ 248	$ 329	$ 409	$ 446	$ 463	$ 531
FEDERAL FUNDS PURCHASED & REPOS	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
BORROWED MONEY	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
SUBORDINATED NOTES & DEBENTURES	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
TOTAL INTEREST EXPENSE	$ 248	$ 329	$ 409	$ 446	$ 477	$ 538
INTEREST RATE ON:						
DOM TIME CD'S - $100M OR MORE	N/A	N/A	N/A	N/A	16.09 97	6.29 64
	N/A	N/A	N/A	N/A	5.98	5.98
ALL INTEREST BEARING DEPOSITS	4.80 50	5.19 70	5.54 50	5.62 43	5.66 45	5.74 50
	4.76	4.95	5.56	5.64	5.66	5.69
FEDERAL FUNDS AND OTHER BORROWINGS	N/A	N/A	N/A	N/A	N/A	N/A
	5.65	6.65	6.78	6.00	5.60	6.05
RATE SENSITIVE LIABILITIES	N/A	N/A	N/A	N/A	16.09 98	6.29 65
	N/A	N/A	N/A	N/A	5.89	5.87
TOTAL INTEREST EXPENSE/AV EARN ASSETS	3.30 78	3.72 69	4.20 85	4.29 83	4.48 85	4.54 87
	2.74	2.87	3.35	3.56	3.69	3.80
TOTAL INTEREST EXPENSE/AVERAGE ASSETS	2.88 78	3.28 88	3.62 83	3.77 85	3.96 84	4.07 86
	2.37	2.51	2.93	3.10	3.29	3.40
TOTAL INT EXP/TOTAL INT INC-TAX EQ.	42.00 59	46.18 78	50.28 84	55.65 92	58.31 95	55.72 93
	38.71	38.23	40.74	43.55	44.01	44.63

OTHER EARNINGS COMPONENTS

	1972	1973	1974	1975	1976	1977
OTHER EARNINGS:						
TRUST DEPARTMENT	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
DOM DEPOSIT SERVICE CHARGES	$ 13	$ 18	$ 23	$ 23	$ 22	$ 25
OTHER SERVICE CHARGES	$ 5	$ 6	$ 7	$ 9	$ 9	$ 28
REM FOREIGN EARNINGS*	$ 0	$ 0	$ 0	$ 0	N/A	N/A
UNCONSOLIDATED EARNINGS**	N/A	N/A	N/A	N/A	$ 0	$ 0
OTHER EARNINGS	$ 2	$ 23	$ 23	$ 18	$ 17	$ 24
TOTAL OTHER EARNINGS	$ 20	$ 47	$ 53	$ 50	$ 48	$ 77
OTHER EARNINGS/AVERAGE ASSETS	.23 31	.47 76	.47 75	.42 67	.40 66	.58 84
	.37	.36	.37	.39	.37	.36
DOM DEPOSIT SER CHGS/IPC DEMAND DEP	.69	.93	1.15	1.09	.96	.10
	.63	.58	.61	.65	.64	.63

*1976 AND SUBSEQUENT REPORTS ARE PREPARED ON A LINE FOR LINE FULLY CONSOLIDATED FOREIGN AND DOMESTIC BASIS.
** INCREASE OR (DECREASE) IN NET WORTH OF UNCONSOLIDATED SUBSIDIARIES AND ASSOCIATED COMPANIES.

03/16/78

NON-INTEREST EXPENSE COMPONENTS
(DOLLARS IN THOUSANDS)

	ANNUAL DATA					
	1972	1973	1974	1975	1976	1977
NO. OF EMPLOYEES	14	16	15	11	16	16
PERSONNEL EXPENSE/NO. OF EMPLOYEES	8.71 63 8.41	8.87 58 8.83	10.47 68 9.68	14.55 91 10.40	12.12 73 10.99	12.37 67 11.74
NO. FULL TIME EQUIVALENT EMPLOYEES	N/A	N/A	N/A	N/A	16	0
PERSONNEL EXPENSE/NO. EQUIV EMPLOYEES	N/A N/A	N/A N/A	N/A N/A	N/A N/A	12.12 64 11.85	N/A 12.82
NO. EQUIV EMP PER $1MM OF ASSETS	N/A N/A	N/A N/A	N/A N/A	N/A N/A	1.33 1.23	.00 1.13
PERSONNEL EXPENSE	$ 122	$ 142	$ 157	$ 160	$ 194	$ 198
OCCUPANCY EXPENSE:						
GROSS	$ 22	$ 13	$ 25	$ 18	$ 18	$ 18
LESS RENTAL INCOME	$ 3	$ 3	$ 4	$ 4	$ 0	$ 1
NET	$ 19	$ 10	$ 21	$ 14	$ 18	$ 17
FURNITURE & EQUIPMENT	$ 13	$ 15	$ 19	$ 13	$ 11	$ 8
SUBTOTAL	$ 32	$ 25	$ 40	$ 27	$ 29	$ 25
OTHER OPERATING EXPENSE	$ 68	$ 94	$ 106	$ 125	$ 118	$ 138
TOTAL NON-INTEREST EXPENSE	$ 222	$ 261	$ 303	$ 312	$ 341	$ 361
PERSONNEL EXPENSE/AVERAGE ASSETS	1.42 63 1.35	1.42 64 1.33	1.39 60 1.36	1.35 54 1.37	1.61 73 1.40	1.50 65 1.39
OCCUPANCY EXPENSE/AVERAGE ASSETS	.37 70 .32	.25 39 .32	.35 64 .33	.23 26 .35	.24 27 .36	.19 15 .35
OTHER OPERATING EXPENSE/AVG. ASSETS	.79 68 .72	.94 79 .73	.94 74 .77	1.06 83 .78	.98 73 .84	1.04 80 .81
TOTAL NON-INTEREST EXP/AVG. ASSETS	2.58 69 2.39	2.61 68 2.37	2.68 68 2.45	2.64 64 2.49	2.83 67 2.60	2.73 67 2.55

03/16/78

INCOME TAXES AND NON OPERATING INCOME (LOSS)
(DOLLARS IN THOUSANDS)

	ANNUAL DATA					
INCOME TAXES	1972	1973	1974	1975	1976	1977
APPLICABLE INCOME TAX ON OPER INCOME	$ 15	$ 10	$ 0	$ 0	$ 0	$ 0
PLUS: MUNI SECURITY TAX BENEFIT	$ 46	$ 58	$ 65	$ 15	$ 0	$ 22
APPLICABLE INCOME TAX - TAX EQ.	$ 61	$ 68	$ 65	$ 15	$ 0	$ 22
APP INCOME TAX - TAX EQ./AVG. ASSETS	.72	.68	.58	.13	.00	.17
MEMO TAX PROVISION:						
FEDERAL	$ 15	$ -1	$ 0	$ 0	$ 0	$ 0
STATE AND LOCAL	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
FOREIGN	N/A	N/A	N/A	N/A	$ 0	$ 0
ALL INCOME TAXES	$ 16	$ 10	$ 0	$ 0	$ 0	$ 0
ALL INCOME TAX/AVERAGE ASSETS	.19	.10	.00	.00	.00	.00
	.30	.38	.39	.25	.24	.27
SECURITIES GAIN OR (LOSS)						
GROSS	$ 0	$ 0	$ 1	$ 6	$ 1	$ 0
TAX EFFECT	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
NET	$ 0	$ 0	$ 1	$ 6	$ 1	$ 0
NET SECURITY GAIN (LOSS)/AVG. ASSETS	.00	.00	.01	.05	.01	.00
EXTRAORDINARY ITEMS GAIN OR (LOSS)						
GROSS	$ 3	$ 0	$ 0	$ 0	$ 0	$ 0
TAX EFFECT	$ 1	$ 0	$ 0	$ 0	$ 0	$ 0
NET	$ 2	$ 0	$ 0	$ 0	$ 0	$ 0
NET EXTRA. GAIN (LOSS)/AVG. ASSETS	.02	.00	.00	.00	.00	.00

03/16/78

CAPITAL ANALYSIS
(DOLLARS IN THOUSANDS)

ANNUAL DATA

CAPITAL COMPOSITION:(END OF PERIOD)	1972	1973	1974	1975	1976	1977
PREFERRED STOCK	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
COMMON STOCK	$ 50	$ 50	$ 50	$ 50	$ 50	$ 300
SURPLUS	$ 150	$ 150	$ 150	$ 150	$ 150	$ 300
UNDIVIDED PROFITS	$ 448	$ 542	$ 629	$ 689	$ 796	$ 491
CONTINGENCY & CAPITAL RESERVES	$ 100	$ 100	$ 100	$ 100	$ 0	$ 5
TOTAL EQUITY CAPITAL	$ 748	$ 842	$ 929	$ 989	$ 996	$ 1096
SUBORDINATED NOTES & DEBENTURES	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
TOTAL CAPITAL	$ 748	$ 842	$ 929	$ 989	$ 996	$ 1096
CAPITAL GROWTH RATE	8.25 42 10.56	12.57 51 14.50	10.33 43 12.79	6.46 25 11.38	.71 07 13.13	10.04 40 12.45
CHANGES IN EQUITY CAPITAL:						
BALANCE BEGINNING OF PERIOD	$ 691	$ 748	$ 842	$ 929	$ 988	$ 995
NET INCOME	$ 69	$ 104	$ 79	$ 31	$ -11	$ 101
SALE OR PURCHASE OF CAPITAL	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
CHANGES MERGERS & ABSORPTIONS	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
LESS: CASH DIVIDENDS	$ 5	$ 6	$ 5	$ 5	$ 5	$ 5
NET OTHER INCREASES (DECREASES)	$ -7	$ -4	$ 13	$ 33	$ 24	$ 5
BALANCE END OF PERIOD	$ 748	$ 842	$ 929	$ 988	$ 996	$ 1096
CAPITAL RATIO ANALYSIS: (END OF PERIOD)						
ASSETS/TOTAL CAPITAL(X)	12.18 34 13.52	12.52 36 13.49	12.64 44 13.11	11.92 34 13.16	12.40 47 12.65	12.93 59 12.48
DEPOSITS/TOTAL CAPITAL(X)	10.99 35 12.21	11.25 38 12.16	11.43 46 11.75	10.78 36 11.80	11.37 49 11.51	11.87 60 11.35
NET LOANS/TOTAL CAPITAL (X)	4.30 19 6.24	5.32 32 6.37	5.91 42 6.34	5.46 35 6.40	5.75 36 6.40	6.99 54 6.55
LOANS & ACCEP/TOTAL CAPITAL(X)	4.30 6.24	5.32 6.37	5.91 6.34	5.46 6.40	5.75 6.40	6.99 6.55
TOTAL EQUITY CAPITAL/TOTAL ASSETS	8.21 7.80	7.99 7.89	7.91 7.98	8.39 7.91	8.06 8.18	7.74 8.26
TOTAL CAPITAL/TOTAL ASSETS	8.21 65 7.84	7.99 63 7.98	7.91 55 8.08	8.39 66 8.03	8.06 52 8.30	7.74 41 8.40
TOTAL BORROWINGS/TOTAL CAPITAL (X)	.00 .03	.00 .04	.00 .04	.00 .05	.00 .06	.00 .06
NET INCOME/AVERAGE EQUITY CAPITAL	9.54 25 11.88	12.97 38 14.14	8.88 13 14.28	3.30 04 13.25	-1.13 01 13.62	9.87 16 13.61

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ADDITIONAL CAPITAL FACTORS AND
DIVIDEND ANALYSIS
(DOLLARS IN THOUSANDS)

ADDITIONAL CAPITAL FACTORS	ANNUAL DATA 1972	1973	1974	1975	1976	1977
CHANGE IN UNDIVIDED PROFITS & SURPLUS	10.54 46	15.72 57	12.57 44	7.70 31	12.75 47	-16.38 00
	11.58	15.58	13.84	11.22	13.04	14.31
RETAINED EARNINGS(1)/AVG. EQ. CAPITAL	8.85 48	12.22 63	8.31 31	2.77 08	-1.65 02	9.38 41
	8.60	10.87	10.88	9.74	10.09	10.13
ASSET GROWTH RATE	8.27 15	15.65 55	11.45 62	.34 06	4.84 24	14.66 69
	15.46	15.48	10.24	11.80	9.25	12.01
SUBORDINATED DEBT/TOTAL CAPITAL(2)	.00	.00	.00	.00	.00	.00
	.56	1.20	1.37	1.75	1.69	1.86
INVEST IN FIXED ASSETS/TOTAL CAP(2)	15.37	21.97	28.96	26.49	27.91	25.55
	17.06	17.30	17.89	18.74	18.59	17.70
INVEST IN FIXED ASSETS/COMMON STOCK(2)	230.00	370.00	538.00	524.00	556.00	93.33
	76.92	81.48	84.28	89.28	94.52	93.53
NET INCOME/SHARES OF COMMON STOCK(3)	N/A	N/A	N/A	N/A	-22.00	101.00

DIVIDEND ANALYSIS	1972	1973	1974	1975	1976	1977
NET INCOME	$ 69	$ 104	$ 79	$ 31	$ -11	$ 101
ADD: GROSS RECOVERIES	$ 2	$ 6	$ 2	$ 0	$ 7	$ 4
PROV. FOR POSSIBLE LOAN LOSSES	$ 12	$ -3	$ 11	$ 53	$ 60	$ 20
LESS: GROSS LOAN LOSSES	$ 13	$ 3	$ 14	$ 53	$ 75	$ 1
TAX ADJUSTMENT (4)	$ 0	$ 0	$ 0	$ 0	$ -4	$ 11
NET BEFORE DIVIDENDS	$ 69	$ 104	$ 78	$ 31	$ -15	$ 112
LESS: CASH DIVIDENDS DECLARED	$ 5	$ 6	$ 5	$ 5	$ 5	$ 5
NET AFTER DIVIDENDS	$ 64	$ 98	$ 73	$ 26	$ -20	$ 107
CASH DIVIDENDS DECLARED/NET INCOME	7.25	5.77	6.33	16.13	-45.45	4.95
	28.09	23.21	24.48	27.02	26.43	26.22

(1) NET INCOME LESS CASH DIVIDENDS.
(2) END OF PERIOD.
(3) THE RATIO IS EXPRESSED IN DOLLARS PER SHARE.
(4) TAX RATE IS 50%.

03/16/78

ANALYSIS OF RESERVE FOR POSSIBLE LOAN LOSSES
(DOLLARS IN THOUSANDS)

COMPUTATION	ANNUAL DATA 1972	1973	1974	1975	1976	1977
BEGINNING BALANCE(1)	N/A	N/A	N/A	N/A	$ 29	$ 21
GROSS LOAN LOSSES	$ 13	$ 3	$ 14	$ 53	$ 75	$ 1
GROSS RECOVERIES	$ 2	$ 6	$ 2	$ 0	$ 7	$ 4
NET LOAN LOSSES	$ 11	$ -3	$ 12	$ 53	$ 68	$ -3
PROVISION FOR POSSIBLE LOAN LOSSES	$ 12	$ -3	$ 11	$ 53	$ 60	$ 20
OTHER INCREASES/(DECREASES)	N/A	N/A	N/A	N/A	$ 0	$ 0
ENDING BALANCE(1)	N/A	N/A	N/A	$ 29	$ 21	$ 44
AVERAGE TOTAL LOANS(3)	$ 3215	$ 3925	$ 4999	$ 5512	$ 5508	$ 7120
COMPARATIVE RATIOS						
PROVISION/AVERAGE ASSETS	.14 67 .14	-.03 03 .13	.10 55 .16	.45 91 .17	.50 92 .17	.15 61 .17
PROVISION/AVERAGE TOTAL LOANS(3)	.37 74 .29	-.08 03 .27	.22 55 .33	.96 92 .33	1.09 94 .32	.28 61 .31
GROSS LOAN LOSSES/AVG.TOTAL LOANS(3)	.40 66 .38	.08 30 .37	.28 53 .47	.96 89 .43	1.36 94 .41	.01 12 .35
NET LOAN LOSSES/AVG. TOTAL LOANS(3)	.34 79 .27	-.08 10 .26	.24 65 .35	.96 93 .31	1.23 96 .32	.04 08 .22
RECOVERIES/GROSS LN LOSS PRIOR PERIOD	66.67 56.17	46.15 61.70	66.67 59.29	.00 52.86	13.21 51.94	5.33 48.48
ENDING BALANCE(1)/AVG. TOTAL LOANS(3)	N/A N/A	N/A N/A	N/A N/A	.53 22 1.08	.38 15 1.03	.62 25 1.01
ENDING BALANCE(1)/NET LOAN LOSSES(X)	N/A N/A	N/A N/A	N/A N/A	.55 9.82	.31 9.87	14.67 10.59
ADJUSTED EARNINGS(2)/NET LN LOSSES(X)	8.55 47 30.77	-37.00 08 39.69	7.42 40 36.06	1.47 21 29.75	.71 17 33.21	40.33 10 32.57

(1) RESERVE FOR POSSIBLE LOAN LOSSES.
(2) NET OPERATING INCOME PLUS PROVISION FOR POSSIBLE LOAN LOSSES.
(3) AVERAGE TOTAL LOANS IS BASED UPON AVERAGES FROM THE MEMORANDUM SECTION OF THE REPORT OF CONDITION OR THE LARGE BANK SUPPLEMENT.

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CAPACITY TO HEDGE INTEREST MARGINS
(END OF PERIOD DOLLARS IN THOUSANDS)

	YEAR END		PRIOR QTR	CURR QTR
	12/31/75	12/31/76	09/30/77	12/31/77
MARKET RATE FUNDS				
FED FUNDS PURCHASED & REPOS	$ 0	$ 0	$ 0	$ 0
BORROWED MONEY	$ 0	$ 0	$ 0	$ 0
DOM TIME DEPOSITS OVER $100M	$ 220	$ 480	$ 214	$ 214
FOREIGN OFFICE	$ 0	$ 0	$ 0	$ C
TOTAL MARKET RATE FUNDS	$ 220	$ 480	$ 214	$ 214
MARKET RATE FUNDS/TOTAL ASSETS	1.87 36 4.86	3.89 49 5.48	1.48 19 6.31	1.51 24 5.32
MARKET RATE ASSETS				
BANKS TIME	N/A	$ 0	$ 0	$ 0
ONE YEAR & LESS SECURITIES	$ 517	$ 1446	$ 1440	$ 1165
TRADING ACCOUNT SECURITIES	$ 0	$ 0	$ 0	$ 0
FED FUNDS SOLD & RESALES	$ 750	$ 0	$ 700	$ 700
VARIABLE RATE LOANS	N/A	N/A	N/A	N/A
TOTAL MARKET RATE ASSETS*	$ 1267	$ 1446	$ 2140	$ 1865
MARKET RATE ASSETS/TOTAL ASSETS*	10.75 45 12.61	11.70 52 12.68	14.83 75 11.02	13.17 57 12.52
NET POS IN MARKET RATE ASSETS - AMT*	$ 1047	$ 966	$ 1926	$ 1651
NET POS IN MKT RATE ASSET/TOTAL ASSET*	8.88 55 7.75	7.82 54 7.21	13.34 86 4.71	11.65 72 7.19

UNCOLLECTED INCOME ANALYSIS
(END OF PERIOD DOLLARS IN THOUSANDS)

	12/31/75	12/31/76	09/30/77	12/31/77
INCOME EARNED NOT COLLECTED	$ 227	$ 284	$ 229	$ 276
IENC/DOM LOANS & SECURITIES	2.73 97 .54	2.96 98 .64	2.18 88 .72	2.67 97 .66

* DOES NOT INCLUDE VARIABLE RATE LOANS IN THE CASE OF BANKS WITH TOTAL ASSETS OF LESS THAN $300 MILLION.

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ASSET & LIABILITY CHANGES
(DOLLARS IN THOUSANDS)

	PRIOR YR QTR/CUR YR QTR 12/31/76 TO 12/31/77 INCREASE/ (DECREASE)	PRIOR QTR/CUR QTR 09/30/77 TO 12/31/77 INCREASE/ (DECREASE)
ASSETS		
CASH & DUE FROM BANKS	$ 99	$ -131
INVESTMENT SECURITIES	$ -927	$ -152
TRADING ACCOUNT	$ 0	$ 0
FEDERAL FUNDS & RESALES	$ 700	$ 0
LOANS	$ 1931	$ -43
DIRECT LEASE FINANCING	$ 0	$ 0
ACCEPTANCES	$ 0	$ 0
OTHER ASSETS	$ 8	$ 58
NET INCREASE (DECREASE)	$ 1811	$ -268
LIABILITIES		
DEMAND DEPOSITS	$ 524	$ 46
TIME AND SAVINGS DEPOSITS	$ 1163	$ -369
DEPOSITS - FOREIGN OFFICES	$ 0	$ 0
FEDERAL FUNDS & REPOS	$ 0	$ 0
OTHER BORROWINGS	$ 0	$ 0
ACCEPTANCES	$ 0	$ 0
OTHER LIABILITIES	$ 24	$ -12
SUBORDINATED DEBENTURES	$ 0	$ 0
EQUITY CAPITAL	$ 100	$ 67
NET INCREASE (DECREASE)	$ 1811	$ -268

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PAST DUE LOAN ANALYSIS AND
AMENDED REPORTS
(END OF PERIOD DOLLARS IN THOUSANDS)

PAST DUE LOANS BY CATEGORY	YEAR END 12/31/75	YEAR END 12/31/76	PRIOR QTR 09/30/77	CURR QTR 12/31/77
REAL ESTATE	$ 1	$ 66	$ 52	$ 51
COMMERCIAL & INDUSTRIAL	$ 206	$ 120	$ 143	$ 206
TO INDIVIDUALS FOR PERSONAL EXPEND.	$ 4	$ 22	$ 14	$ 27
ALL OTHER	$ 39	$ 0	$ 0	$ 54
TOTAL	$ 250	$ 208	$ 209	$ 338

PAST DUE AS % OF LOANS IN CATEGORY	12/31/75	12/31/76	09/30/77	12/31/77
REAL ESTATE	.05	2.64	1.29	1.37
	2.60	2.82	2.63	2.77
COMMERCIAL & INDUSTRIAL	14.92	10.64	6.61	8.07
	3.34	3.51	3.72	3.51
TO INDIVIDUALS FOR PERSONAL EXPEND.	.33	1.93	.99	3.11
	2.90	2.97	2.87	3.02
ALL OTHER	4.07	.00	.00	9.54
	3.07	3.31	2.92	3.31
TOTAL	4.63 80	3.59 69	2.69 55	4.38 79
	3.00	2.91	2.81	2.91

NOTE: FIGURES IN THE PAST DUE ANALYSIS ARE CALCULATED FROM GROSS LOAN TOTALS.

AMENDED REPORTS

THE BANK PERFORMANCE REPORT IS PRIMARILY BASED UPON CALL REPORT DATA AS ORIGINALLY FILED. LISTED BELOW BY QUARTER SINCE 1975 ARE THOSE AMENDED REPORTS PROVIDED BY YOUR BANK WHICH HAVE BEEN ENTERED INTO THE DATA BASE.

		1975	1976	1977
REPORT OF CONDITION	- FIRST QTR.	N/A	N/A	N/A
	- SECOND QTR.	N/A	N/A	N/A
	- THIRD QTR.	N/A	N/A	N/A
	- FOURTH QTR.	N/A	N/A	N/A
REPORT OF INCOME	- FIRST QTR.	N/A	N/A	N/A
	- SECOND QTR.	N/A	N/A	N/A
	- THIRD QTR.	N/A	N/A	N/A
	- FOURTH QTR.	N/A	N/A	N/A

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AMENDED RATIO DEFINITIONS

SEVERAL BASIC RATIO CALCULATION CHANGES HAVE BEEN MADE TO IMPROVE THE DATA REPRESENTED IN THIS REPORT. THESE REVISIONS SUPERSEDE THE RATIO DEFINITIONS DELINEATED IN THE BOOKLET 'THE NBSS BANK PERFORMANCE REPORT A USERS'S GUIDE FOR BANKERS AND EXAMINERS SEPTEMBER 1977.

AVERAGE ASSETS:

UNLESS OTHERWISE NOTED, COMMENCING IN 1977, AVERAGE ASSETS IS BASED UPON AVERAGES FROM THE MEMORANDUM SECTION OF THE REPORT OF CONDITION. THIS COMPONENT IS USED IN ALL INCOME AND EXPENSE RATIOS UTILIZING AVERAGE ASSETS.

ADJUSTED RETURN ON AVERAGE ASSETS:

REDEFINED TO INCLUDE AN ADJUSTMENT FOR THE TAX DIFFERENTIAL ON THE INITIAL INCREMENT OF TAXABLE INCOME. (FOR NBSS PURPOSES THE TAX RATE IS 25% ON THE INITIAL $50 THOUSAND OF TAXABLE INCOME AND 50% ON THE EXCESS).

TAX EQUIVALENT ADJUSTMENT FOR MUNICIPAL SECURITIES:

MUNICIPAL SECURITY TAX BENEFIT IS REDEFINED AS THE LESSER OF MUNICIPAL BOND INCOME OR PRE-TAX INCOME INCLUDING GROSS EXTRAORDINARY ITEMS AND GROSS SECURITY GAINS OR LOSSES; ADJUSTED FOR TAX RATE DIFFERENTIAL ON THE INITIAL INCREMENT OF TAXABLE INCOME. IF PRE-TAX NET INCOME IS LESS THAN ZERO, THE BENEFIT IS ZERO.

GLOSSARY OF NBSS SIGNIFICANT RATIOS

AVERAGE ASSETS	An average of total assets from each Report of Condition filed during the year plus the preceding year end. Thus, each full year figure is an average of five total assets figures. Beginning June 30, 1977 the 30 day total assets as reported in the memoranda section of each Report of Condition replaced the as-of-date figure.
NET INCOME	This is the bank's after tax income as reported on the Report of Income and includes security gains or losses and extraordinary items.
RETURN ON AVERAGE ASSETS	This is the net income of the bank divided by average assets. It is a measure of how effectively the bank is using its assets to generate income and is a prime indicator of overall management performance.
ADJUSTED RETURN ON AVERAGE ASSETS	This ratio portrays Return on Average Assets using actual net loan losses rather than the provision for possible loan losses as a component of net income. An adjustment is also made for the consequent tax effect of this change.
PRE-TAX NET OPERATING INCOME-TAX EQUIVALENT	Total operating income-tax equivalent less total operating expenses divided by average assets. This indicator measures the profitability of the bank's overall operations before taxes, securities gains or losses, and extraordinary items.

NET INTEREST EARNINGS/ AVERAGE ASSETS	Tax equivalent Interest Income less Interest Expense as a percent of Average Assets. Net Interest Earnings is frequently referred to as "Net Interest Margin" or "Spread". This ratio measures the profitability of the basic banking function, receiving deposits and purchasing funds to invest in interest earning assets.
OTHER EARNINGS/ AVERAGE ASSETS	Operating income other than Interest Income divided by Average Assets. This indicator measures the dependency of the bank upon income derived from bank services other than from interest earning assets.
NON INTEREST EXPENSE/ AVERAGE ASSETS	All overhead expense not including the provision for possible loan losses divided by average assets. The components of this expense are personnel and occupancy costs and other operating expenses. This ratio measures the operating costs of doing business.
PROVISION FOR POSSIBLE LOAN LOSSES/AVERAGE ASSETS	Provision for possible loan losses (or actual net loan losses) divided by average assets. An increase in this ratio could indicate a possible deterioration in the loan portfolio.
ASSET GROWTH RATE	Total assets at the end of the current period less total assets at the end of the corresponding period in the prior year divided by total assets at the end of the corresponding period in the prior year. A substantial change in this ratio could prompt an investigation to determine the reason for this change and management's ability to cope with the situation.
CHANGE IN ASSET MIX	This ratio monitors changes in asset composition. It is the sum of the absolute percentage changes in each category of assets from the end of the corresponding period in the prior year to the end of the current period.
CHANGE IN LOAN MIX	This ratio monitors changes in the composition of the loan portfolio. It is calculated in the same manner as "Changes in Asset Mix".

CHANGE IN LIABILITY MIX	This ratio measures changes in liability composition. This calculation is performed in the same manner as the two other mix ratios.
RETAINED EARNINGS/ AVERAGE EQUITY CAPITAL	Net income for the period less cash dividends declared in the same period divided by average equity capital. Average equity capital is defined as equity capital at the prior year end and at each subsequent reporting period divided by the number of reporting periods. This ratio measures the growth rate of internally generated capital.
ASSETS/TOTAL CAPITAL	End-of-period total assets divided by end-of-period total capital. This indicator measures the number of times total assets exceed total capital.

Data is obtained from Reports of Condition and Reports of Income filed on a quarterly basis with the Office of the Comptroller of the Currency. Averages are calculated using the figures from each Report of Condition filed during the year plus the preceding year end. This gives an observation at the beginning and end of the year and at the three intervening call report dates, thus minimizing seasonal fluctuations.

At present banks are divided into twenty peer groups according to asset size and a further break-down, in some size groups, by number of branches and location in either an urban or rural area. Banks located within a Standard Metropolitan Statistical Area are considered urban banks.

NBSS ACTION CONTROL STATUS REPORT PAGE NO. 86 05/15/78

ACTION DATE AND CODE QTR MO DA YR CD	CD CONDITION CITED	POSTING DATE MO DA YR	RESPONSE	CODE			STATUS
277 10 28 77 02	XYZ NATIONAL BANK	REG	CHARTER NO	PEER GP 06	P	3	

DEC 77 TOTASSTS 68920 ASSTGROW 23.60 ROA -.16 ASST/CAP 28.07

CD	CONDITION CITED	POSTING DATE	RESPONSE	CODE	VALUE		STATUS
###	IMPORTANT DATES	03 08 78	BOARD MEETING HELD ON OR BY		12-15-77	D	
		03 08 78	LATEST EXAMINATION		08-08-77	D	
1AF	RETURN ON ASSETS 0-9 PERCENTILE	05 15 78	FIGURE REPORTED BY BANK	4	-.43	%	OPEN
		04 17 78	FIGURE REPORTED BY BANK	3	-.59	%	
		04 17 78	FIGURE REPORTED BY BANK	2	-.96	%	
		04 13 78	PEER GROUP FIGURE LAST BPR	Q	.83	%	
		02 27 78	FIGURE REPORTED BY BANK	1	-1.32	%	
		02 02 78	FIGURE REPORTED BY BANK	M	-.16	%	
		02 02 78	FIGURE REPORTED BY BANK	M	12-31-77	D	
		12 22 77	FIGURE REPORTED BY BANK	M	-.21	%	
		12 22 77	FIGURE REPORTED BY BANK	M	09-30-77	D	
		11 15 77	FIGURE REPORTED BY BANK	M	-.04	%	
		11 15 77	BANK FIGURE LAST BPR	Q	-.07	%	
		11 15 77	PEER GROUP FIGURE LAST BPR	Q	.85	%	
36A	INTEREST ON ALL INTEREST BEARING DEPOSITS 90-99 PERCENTIL	05 15 78	FIGURE REPORTED BY BANK	4	6.57	%	OPEN
		04 17 78	FIGURE REPORTED BY BANK	3	6.60	%	
		04 17 78	FIGURE REPORTED BY BANK	2	6.69	%	
		04 13 78	PEER GROUP FIGURE LAST BPR	Q	5.50	%	
		02 27 78	FIGURE REPORTED BY BANK	1	6.70	%	
		02 02 78	FIGURE REPORTED BY BANK	M	6.68	%	
		02 02 78	FIGURE REPORTED BY BANK	M	12-31-77	D	
		11 10 77	BANK FIGURE LAST BPR	Q	6.58	%	
		11 10 77	PEER GROUP FIGURE LAST BPR	Q	5.41	%	
4CF	AVER EARN ASSETS/AVER ASSETS 0-9 PERCENTILE	05 15 78	FIGURE REPORTED BY BANK	4	83.78	%	OPEN
		04 17 78	FIGURE REPORTED BY BANK	3	84.18	%	
		04 17 78	FIGURE REPORTED BY BANK	2	84.34	%	
		04 13 78	PEER GROUP FIGURE LAST BPR	Q	87.41	%	
		03 03 78	BANK FIGURE LAST BPR	9	76.22	%	
		02 27 78	FIGURE REPORTED BY BANK	1	80.74	%	
		02 02 78	FIGURE REPORTED BY BANK	M	77.44	%	
		02 02 78	FIGURE REPORTED BY BANK	M	12-31-77	D	
		12 22 77	FIGURE REPORTED BY BANK	M	76.31	%	
		12 22 77	FIGURE REPORTED BY BANK	M	09-30-77	D	
		11 10 77	FIGURE REPORTED BY BANK	M	74.77	%	
		11 10 77	BANK FIGURE LAST BPR	Q	75.57	%	
		11 10 77	PEER GROUP FIGURE LAST BPR	Q	87.32	%	
5ZF	END-O-PER VAL RES/AV LNS 0-9 PERCENTILE	05 15 78	FIGURE REPORTED BY BANK	4	.27	%	OPEN

ACTION DATE AND CODE QTR MO DA YR CD	CD	CONDITION CITED	POSTING DATE MO DA YR	RESPONSE	CODE			STATUS
			04 18 78	FIGURE REPORTED BY BANK	2	.22	%	
			04 17 78	FIGURE REPORTED BY BANK	3	.24	%	
			04 13 78	PEER GROUP FIGURE LAST BPR	Q	1.04	%	
			03 03 78	PEER GROUP FIGURE LAST BPR	9	1.01	%	
			02 27 78	FIGURE REPORTED BY BANK	1	.20	%	
			02 02 78	FIGURE REPORTED BY BANK	M	.20	%	
			02 02 78	FIGURE REPORTED BY BANK	M	12-31-77	D	
			01 26 78	FIGURE REPORTED BY BANK	M	.25	%	
			01 26 78	FIGURE REPORTED BY BANK	M	09-30-77	D	
			11 10 77	FIGURE REPORTED BY BANK	M	.22	%	
			11 10 77	BANK FIGURE LAST BPR	Q	.20	%	
			11 10 77	PEER GROUP FIGURE LAST BPR	Q	1.00	%	
	6KA	ASSETS/TOTAL CAPITAL(X) 90-99 PERCENTILE	05 15 78	FIGURE REPORTED BY BANK	4	24.16	X	OPEN
			04 17 78	FIGURE REPORTED BY BANK	3	24.09	X	
			04 17 78	FIGURE REPORTED BY BANK	2	23.15	X	
			04 13 78	PEER GROUP FIGURE LAST BPR	Q	13.83	X	
			03 03 78	PEER GROUP FIGURE LAST BPR	9	13.52	X	
			02 27 78	FIGURE REPORTED BY BANK	1	24.15	X	
			02 02 78	FIGURE REPORTED BY BANK	M	28.07	X	
			02 02 78	FIGURE REPORTED BY BANK	M	12-31-77	D	
			11 10 77	FIGURE REPORTED BY BANK	M	25.70	X	
			11 10 77	BANK FIGURE LAST BPR	Q	23.46	X	
			11 10 77	PEER GROUP FIGURE LAST BPR	Q	13.58	X	
377 03 02 78 02		XYZ NATIONAL BANK	REG	CHARTER NO PEER GP 06	P	3		
	5RM	BORROWINGS ST INCREASE	05 15 78	FIGURE REPORTED BY BANK	4 $	11261		OPEN
			04 17 78	FIGURE REPORTED BY BANK	3 $	13163		
			04 17 78	FIGURE REPORTED BY BANK	2 $	11680		
			03 03 78	FIGURE REPORTED BY BANK	1 $	13742		
			03 03 78	FIGURE REPORTED BY BANK	D $	7799		
			03 03 78	FIGURE REPORTED BY BANK	9 $	11891		
477 05 04 78 03		XYZ NATIONAL BANK	REG	CHARTER NO PEER GP 06	P	3		

537