Volume 90 □ Number 1 □ Winter 2004

Federal Reserve BULLETIN

Board of Governors of the Federal Reserve System, Washington, D.C.

The *Federal Reserve Bulletin* is issued quarterly under the direction of the staff publications committee. This committee is responsible for opinions expressed except in official statements and signed articles. It is assisted by the Publications Department under the direction of Lucretia M. Boyer.

Table of Contents

The availability and variety of electronic banking technologies in the marketplace has greatly expanded in recent years. For financial institutions, e-banking technologies can speed processing, reduce costs, and help attract and retain customers. For consumers, they can save time and money and may be more convenient than more traditional ways of banking. This article draws on data from two nationwide surveys to look at consumer use of such products and services as debit cards, pre-authorized debits, and computer banking, particularly as use relates to consumer demographic characteristics and consumer perceptions.

The data show a consistent increase in the proportion of consumers using a variety of e-banking technologies. Consumer attitudes toward e-banking generally have become more positive over time, with more consumers seeing e-banking as convenient, familiar, easy to use, and secure. The use of some technologies, particularly debit cards, has become more democratized over time, but it is still the case that most e-banking technologies tend to be used by higher income, higher asset, younger, and better educated households.

E-banking technologies hold the promise of helping families manage their money, pay their bills on time, and avoid overextending themselves with credit. To take full advantage of them, however, consumers need to become aware of the evolving array of e-banking technologies available to them and understand how different technologies fit with their financial management needs. Financial planners and consumer educators, working with both families and financial institutions, can help the promise become a reality.

Securities have replaced bank lending in recent years as the primary means through which funds are invested internationally, and in the process, the share of U.S. securities owned by foreigners has grown markedly. Between 1974 and 2002, the proportion of the value of outstanding U.S. long-term securities (equities and long-term debt) that was foreign-owned increased from about 5 percent to about 12 percent. At the same time, U.S. holdings of foreign long-term securities also increased, although their growth did not match the rapid growth in foreign holdings of U.S. securities. At $1.8 trillion, the value of U.S. holdings of foreign long-term securities at the end of 2002 was less than half the value of foreign holdings of U.S. securities; this difference resulted in a negative net international position in long-term securities of $2.3 trillion.

The U.S. system for measuring cross-border securities activity consists of annual surveys measuring holdings of securities and monthly reports measuring transactions in securities. This article reports the latest survey data on holdings as well as the more-recent transactions data. The discussion focuses on U.S. cross-border securities activity, but it also addresses the investment patterns of some other countries and describes the initiatives to improve the measurement of cross-border securities investments.

In late 2003, the Board of Governors of the Federal Reserve issued revisions to its measures of industrial, capacity, and capacity utilization for the period from January 1972 to September 2003. The changes are generally small and principally affect data from 2000 to the present.

Measured from fourth quarter to fourth quarter, industrial output is now reported to have increased at a slower rate in 2000 and to have contracted a bit more slowly in 2001 than reported earlier. The changes to total industrial production in other years are slight. The revision still places the most recent peak in total IP in June 2000 and the corresponding trough in December 2001. The 6¼ percent peak-to-trough decline in output is about ½ percentage point less than the previous estimate. After the trough, the total index showed gains in the first half of 2002, only

U.S. Consumers and Electronic Banking, 1995–2003

Christoslav E. Anguelov, Marianne A. Hilgert, and Jeanne M. Hogarth, of the Board's Division of Consumer and Community Affairs, prepared this article.

The variety of electronic banking technologies available in the marketplace has greatly expanded in recent years. For financial institutions, such technologies as direct deposit, automated teller machines, and debit cards can speed processing and reduce costs. Other products and services, for example, computer banking and stored-value payroll cards, are viewed as ways to retain existing customers and attract unbanked and underbanked consumers. From the consumer's perspective, choosing to use electronic banking (e-banking) technologies can mean easier and lower-cost bill-paying, around-the-clock availability of financial services, and time savings in managing finances. For some consumers, e-banking may not be a matter of choice, as more and more financial transactions are being conducted in an "electronic only" format.

Research suggests that consumer acceptance and use of e-banking technologies are related to the characteristics of both the individual consumer and the specific technology. For example, acceptance appears to be associated with a consumer's socioeconomic and demographic characteristics (such as income and age), perceptions of specific technologies (such as perceived ease of use), and personal preferences (such as desire for control over when a bill is paid).

This article draws on data from two nationwide surveys—the Board's Survey of Consumer Finances and the University of Michigan Survey Research Center's Surveys of Consumers—to look at consumer use of e-banking technologies, particularly as it relates to consumer demographic characteristics and perceptions, and the relationship between these factors and the characteristics of selected e-banking products and services. By combining data from these two periodic surveys, the article examines changes in consumers' use of e-banking technologies between 1995 and 2003, a period of substantial change and growth in the electronic financial services marketplace, and shifts in perceptions in recent years. (For information on the two data sets, see appendix A.) The article concludes with a discussion of the implications of trends in the use of e-banking for consumer educators.

Note. Christopher Calice, of the University of California–Davis, and Mary E. Gibson, of Georgetown University, Washington, D.C., provided assistance with background research.

E-Banking Technologies

Electronic banking encompasses a broad range of established and emerging technologies. Some are "front end" products and services that consumers opt for, such as ATM cards and computer banking; others are "back end" technologies used by financial institutions, merchants, and other service providers to process transactions, such as electronic check conversion. Some are tied to a consumer bank account; others are unrelated to a bank account but instead store monetary value in a database or directly on a card.[1] As the e-banking marketplace has evolved, the distinctions between products have blurred; for example, one plastic card having a magnetic strip may be tied to a bank account and another may store monetary value, but both may be referred to by merchants and vendors as "debit cards." Described here are the most common products and services used by consumers (other electronic banking technologies and related terms are described in the box "Glossary of E-Banking Terms").

Products Related to Bank Accounts

According to the 2001 Survey of Consumer Finances (SCF), about nine out of ten U.S. households have a bank account, and nearly all households within that group (93 percent) have at least one electronic fund

1. Generally, electronic products and services tied to a consumer bank account are covered by the federal Electronic Fund Transfer Act (EFTA) and the Federal Reserve Board's Regulation E and those not tied to a bank account are not. See box "E-Banking and Consumer Protection." Some so-called debit cards not tied to a bank account are actually stored-value cards, although consumers may use them in card readers and at ATMs in the same way they use debit cards tied to an account; these cards generally are not covered by the EFTA.

Glossary of E-Banking Terms

Automated teller machine (ATM). An electronic terminal provided by financial institutions and other firms that permits consumers to withdraw cash from their bank accounts, make deposits, check balances, and transfer funds.

Computer banking. Banking services that consumers can access, by using an Internet connection to a bank's computer center, in order to perform banking tasks, receive and pay bills, and so forth. Many other financial services can be accessed via the Internet (for example, paying credit card bills on a credit card issuer's web site), but those services may not be classified as computer banking.

Debit (or *check) card.* A card used at an ATM or a point-of-sale (POS) terminal that enables a consumer to have funds directly debited from his or her bank account (usually a checking account). Some financial service providers (such as check cashers and currency exchanges) may market a so-called debit card that is not tied to a deposit account but instead functions as a stored-value card.

Direct deposit. A form of payment by which an organization (such as an employer or a government agency) pays funds (such as pay or benefits) via an electronic transfer. The funds are transferred directly into a consumer's bank account.

*Direct payment (*also *electronic bill payment).* A form of payment that allows a consumer to pay bills through electronic fund transfers. Funds are electronically transferred from the consumer's account to the creditor's account. A direct payment differs from a preauthorized debit in that the consumer must initiate each direct payment transaction.

Electronic bill presentment and payment (EBPP). A form of bill payment by which bills are presented to a customer online, via either e-mail or a notice in an e-banking account. After presentment, the customer may pay the bill online when convenient. The payment is electronically deducted from the customer's account.

Electronic check conversion. The process by which information from a check (routing number, account number, and amount of the transaction) is converted into electronic format in order to make a one-time electronic fund transfer from an account.[1]

Electronic fund transfer (EFT) The movement of "money," or credits, from one account to another through an electronic medium.

Payroll card. A type of stored-value card issued by an employer instead of a paycheck that enables an employee to access his or her pay at ATMs or point-of-sale terminals. The employer adds the value of the employee's pay to the card electronically.

Preauthorized debit (or *automatic bill payment).* A form of payment that allows a consumer to authorize automatic payment of regular, recurring bills from his or her account on a specific date, and usually for a specific amount (for example, car payments, housing payments, and budget-plan utility bills). The funds are electronically transferred from the consumer's account to the creditor's account.

Prepaid card. A stored-value card on which monetary value is stored and for which the consumer has paid the issuer in advance.

Smart card. A type of stored-value card in which one or more chips or microprocessors are embedded, making the card capable of storing data, performing calculations, or performing special-purpose processing (to validate personal identification numbers, authorize purchases, verify account balances, and store personal records). The memory in some smart cards is updated when the card is used. The chip or microprocessor physically stores records, such as the value of funds remaining on the card. These cards can be used in "closed" systems (for example, a transit system) or "open" systems (for example, MasterCard or Visa networks).

Stored-value card. A card on which monetary value is stored, through either prepayment by a consumer or deposit by an employer or other entity. For a single-purpose stored-value card, the card issuer and acceptor are generally the same entity, and the funds on the card represent prepayment for specific goods and services (for example, a phone card). A limited-purpose card is generally restricted to well-identified points of sale within a given location (for example, vending machines at a university). A multi-purpose card can be used at several service providers for a wide range of purposes; it may carry a MasterCard or Visa logo or the logo of another interbank network.

NOTE. The definitions in this glossary are meant to give a general understanding of terms used in electronic banking. They are not legal definitions, but they generally assume compliance with applicable legal requirements. The terms may be used differently in different situations, and their exact definition under federal law may differ from that under state law. These definitions are generally consistent with those in the "Glossary of Terms Used in Payments and Settlement Systems" issued by the Bank for International Settlements (www.bis.org/publ/cpss00b.htm) but are less technical.

1. For a more complete description of electronic check conversion, see the consumer publication "When Is Your Check Not a Check?" (www.federalreserve.gov/pubs/checkconv/default.htm).

transfer feature—direct deposit, an ATM or debit card, or computer banking, for example—associated with their account.

Direct deposit. Nearly two-thirds of all employees in the United States have their pay deposited directly into a bank account.[2] And more than four-fifths of social security recipients have benefits deposited directly into their account, thanks in part to the U.S. Department of the Treasury's EFT '99 initiative to increase the number of federal payments made electronically.[3] A part of that initiative was development of the all-electronic Electronic Transfer Account (ETA), a consumer bank account that allows federal benefit recipients to access their funds via ATMs and at point-of-sale terminals.[4] According to the Treasury Department, more than 74,000 ETAs had been opened as of October 2003.[5]

ATM cards. ATM cards, which consumers can use to access their bank accounts at an electronic terminal, were introduced in the late 1960s to help consumers make cash withdrawals from their deposit accounts; by 2003, about 902 million ATM transactions were being processed each month, up slightly from the 2002 monthly average. Consumers are using ATMs not only at their local banks, but at other locations in their neighborhoods and throughout the world. In 2003, more than 64 percent of ATMs were located off bank premises.[6]

Debit cards. Debit cards linked to a bank account, sometimes referred to as check cards, can be used at ATMs as well as at points of sale and over the Internet. The multiple uses of debit cards have contributed to the technology's increasing popularity. Between 1995 and 2002, the number of debit card transactions in the United States grew nearly 42 percent a year.[7] By 2003, the number of point-of-sale debit transactions stood at 495 million a month, up 21 percent from 2002.[8]

2. NACHA–The Electronic Payments Association (formerly National Automated Clearing House Association), *Direct Deposit/ Direct Payment General Information*, 2nd ed. (NACHA, June 2003).

3. Social Security Administration, "Social Security Administration Beneficiaries, Social Security Direct Deposit and Check Statistics" (www.ssa.gov/deposit/GIS/data/Reports/T2StateSum.htm).

4. Development of the ETA was a cooperative effort between the Treasury Department and financial institutions. These accounts carry a maximum $3 a month fee; for other details, see www.fms.treas.gov/ eta/index.html.

5. Financial Management Service, U.S. Department of the Treasury.

6. *EFT Data Book: The Complete Guide to the ATM and POS Debit Markets*, vol. 3, no. 44 (Thompson Media, September 2003).

7. Geoffrey R. Gerdes and Jack K. Walton II, "The Use of Checks and Other Noncash Payment Instruments in the United States," *Federal Reserve Bulletin,* vol. 88 (August 2002), pp. 360–74.

8. *EFT Data Book.*

Preauthorized debits. Preauthorized debits allow consumers to have regular, recurring bills automatically paid on a specific date (for example, a consumer can have car payments automatically debited on the tenth of the month for the life of the lease or loan). The funds are electronically transferred from the consumer's account to the creditor or payee. Unlike ATM cards and debit cards, which are "active" technologies in that consumers must interact with the technology while using it, preauthorized debits can be thought of as a "passive" technology; once the process has been established, the consumer does not need to do anything more until a change is desired (for example, a change in the payment date).

Computer banking. Using computer banking, consumers can access their bank accounts to transfer funds, pay bills, check account balances, review account statements, and conduct other banking business, such as ordering checks and issuing stop-payment orders. Early forms of computer banking involved dial-up connections directly with a bank's computer; now nearly all computer banking is based on Internet connections. Consumers also use the Internet to conduct other personal financial business, such as monitoring investment accounts, reviewing credit card statements, and shopping for credit, investment, and insurance products. Consumers may be able to make electronic fund transfers from either their bank's computer banking program or their financial service's web site; for example, they may be able to pay their credit card bills through either their bank's computer banking service or their credit card company's web site.

Products Not Related to Bank Accounts

Electronic products that are not tied to a consumer bank account but instead store monetary value in a related database or on a card include prepaid cards (such as phone and gift cards), payroll cards, college and military cards, cards used to deliver insurance benefits to disaster victims, and cards used by states to deliver child support payments. These cards can look much like traditional debit cards (for example, they may carry a MasterCard or Visa logo) and may even be called debit cards by merchants and vendors.

Stored-value cards have been around since the 1970s. They were originally issued as single-purpose cards for low-value transactions but are now popular as higher value, broadly usable cards. Most stored-value cards have a magnetic strip that links the card to a monetary value stored in a database. Some are reloadable. They can be used in "closed systems,"

E-Banking and Consumer Protection

The Electronic Fund Transfer Act (EFTA) is the major federal consumer protection law covering electronic banking transactions. It covers most electronic fund transfer (EFT) products and services associated with a consumer bank account, such as ATM and debit cards and computer banking.

Under the provisions of Federal Reserve Board Regulation E (Electronic Fund Transfers), which implements the act, when you use an ATM card to withdraw money from or make deposits to your bank account, or use a debit card at a point-of-sale (POS) terminal to pay for a purchase with money from your bank account, you must receive a written receipt giving such information as the amount of the transfer, the date it was made, and the location of the terminal. This receipt is your record of transfers initiated at an electronic terminal. You can compare this receipt with your periodic bank account statement, which must show electronic fund transfers to and from your account, including those made with an ATM or debit card, by a preauthorized debit, under a telephone transfer plan, or as a computer banking transaction. The statement must also identify the party to whom payment was made and show any EFT service fees.

Consumer liability limits for unauthorized transfers involving ATM and debit cards linked to a bank account are different from the limits for the unauthorized use of credit cards. The federal limit for consumer liability on a lost or stolen credit card is $50.[1] Under Regulation E, the limit for an unauthorized transfer by an ATM card, debit card, or other access device linked to a bank account can vary:

- Your loss is limited to $50 if you notify the financial institution that issued the card within two business days after learning of the loss or theft of your card or personal identification code.
- Your loss could be as high as $500 if you do not notify the financial institution within two business days after learning of the loss or theft of your card or code.
- If you do not report an unauthorized transfer that appears on your statement within sixty days after the statement is mailed to you, your liability for losses is the amount of any unauthorized transfers that take place between the end of the sixty-day period and the time you notify the financial institution. The financial institution must be able to show that the transfers would not have taken place if you had notified it within the sixty-day period. Your loss could include all the money in your account plus your maximum overdraft line of credit, if you have such a line of credit.

1. For more information on liability limits on credit cards, see "Consumer Handbook to Credit Protection Law" (www.federalreserve.gov/pubs/consumerhdbk/).

Under the EFTA, if you notify your financial institution of an error involving an electronic fund transfer—including an unauthorized transfer—the institution must promptly investigate and correct the error. If you believe there has been an error in an electronic fund transfer associated with your account,

1. Write or call your financial institution immediately if possible, but within sixty days of the date the institution mailed the first statement that you think shows an error. Give your name and account number, explain why you believe there is an error, describe the error, and state the dollar amount and date in question. If you call the financial institution, you may be asked to send the information in writing within ten business days.

2. The financial institution must promptly investigate an error and generally must resolve it within ten business days. If the institution cannot resolve the error within ten business days, it may take up to forty-five days to complete its investigation. In that case, within ten business days of your notifying the financial institution of the error, the institution must put back into your account the amount in question while it finishes the investigation. If the error involves a new account opened in the past thirty days, the financial institution generally must resolve the error within twenty business days. For a POS transaction, an international transaction, or a new account (if the error could not be resolved within the applicable period), the financial institution may take up to ninety days to complete its investigation.

3. The financial institution must notify you of the results of its investigation. If there was an error, the institution must correct it promptly, for example, by making the re-credit final. If it finds no error, the financial institution must explain in writing why it believes no error occurred and let you know that it will deduct any amount re-credited during the investigation.

Generally, electronic fund transfer products not associated with a consumer bank account, such as stored-value cards, are not covered by the EFTA. For this reason, you should read the documents you receive with a stored-value card to find out about protections as well as any fees for using the card. Some cards can be registered so that if the card is lost or stolen, a replacement can be issued. There may be fees each time you use the card (for example, a fee may be deducted when using the card at an ATM), or there may be a monthly maintenance fee or an inactivity fee (for example, if you don't use the card for twelve months, the balance may be reduced by a set amount each month until the balance is gone).

such as in a transit system, on a college campus, or at a particular retail establishment, or in "open systems," such as with ATM networks or with any merchant that accepts cards with a MasterCard or Visa logo.

Just as the uses of stored-value cards vary, so too do the features of the cards and the conditions of their use. Users may or may not be charged a fee when they use the card. There may be an expiration date on the funds, or an inactivity fee if the card is not used within a specified period. Some stored-value cards allow consumers to register the card and to review transactions or check balances online. Some card registration programs have a means of reporting lost or stolen cards, thus providing for the recovery of funds (in essence, the issuer deactivates the lost or stolen card and replaces it with an active card); many other programs treat the stored value as cash, and the value remaining on a lost or stolen card may not be recoverable.

Payroll cards. Payroll cards are a paperless mechanism by which an employee's pay is loaded on a stored-value card. For employers, payroll cards facilitate payments to those employees who do not make use of direct deposit, including unbanked employees, and also reduce the cost of replacing lost or stolen paychecks. Employees benefit by not having to pay check-cashing fees, and they may be able to manage their cash flow better because they do not have to cash out their entire paycheck at one time. Payroll funds may be transferred to an individual account for each employee or may be commingled in one company account, with a sub-account for each employee.[9] In the case of individual accounts, employees may develop a relationship with a bank that could lead to their taking advantage of other products and services. Financial institutions may benefit from an expanded potential customer base and also from fee income associated with these cards.

Fewer than 4 percent of employers reported using payroll cards in 2002, reaching fewer than 1 percent of U.S. households (or approximately one million households), but interest in the cards appears to be growing (in 2003 several large employers began using payroll cards in lieu of paychecks).[10] It has been estimated that about 70 percent of the monthly pay loaded on payroll cards is withdrawn in cash at ATMs and that the remainder is used for purchases at points of sale.[11]

Smart cards. Another version of the stored-value card, commonly called a "smart card," has a memory chip or a microprocessor that records the value remaining as the card is used to make purchases. Smart cards have been used since the early 1990s, for example, by participants in federal welfare programs—Temporary Assistance for Needy Families (formerly Aid to Families with Dependent Children) and the food stamp program—to access their benefits at ATMs and at point-of-sale terminals in grocery stores. The largest issuer of smart cards in the United States is now the Department of the Treasury, which uses them to make payments and reimbursements to military personnel worldwide.

Some studies have suggested that smart cards have not been widely accepted by consumers and merchants because they do not offer benefits over other payment instruments and because of consumer concerns about loss and other risks.[12] However, smart cards have been successfully adopted in some closed settings, such as transportation systems (for example, the Washington, D.C., Metro system), universities, and military bases. Given their success in these environments, smart cards may be more adoptable in niche markets.[13]

Use and Users of E-Banking

The use of electronic banking became more widespread among U.S. households between 1995 and 2003 while the proportions of households using traditional (non-electronic) banking methods declined (table 1). Nevertheless, a large proportion of consumers still conduct at least some banking business "in person": More than three out of four households participating in the 2001 Survey of Consumer

9. See Samuel Frumkin, William Reeves, and Barry Wides, "Payroll Cards: An Innovative Product for Reaching the Unbanked and Underbanked," *Community Developments Analysis*, Office of the Comptroller of the Currency, October 2003. With the individual-account structure, the account is a consumer account and the funds carry FDIC coverage and EFTA consumer protections. FDIC coverage does not automatically apply to the commingled-funds structure (sometimes called an "omnibus account") (www.occ.treas.gov/cdd/payrollcards.pdf).

10. American Payroll Association, "Employer Payroll Debit Card Survey" (www.americanpayroll.org/pdfs/surveys2003/PayrollDebitCard.pdf); and Ariana M. Moore, "Payroll Cards: A Direct Deposit Solution for the Unbanked" (Celent Communications, December 2002).

11. Moore, "Payroll Cards."

12. See Sujit Chakravorti, "Why Has Stored Value Not Caught On?" Emerging Issues Series (Federal Reserve Bank of Chicago, Supervision and Regulation Department, May 2000); and Brian Mantel, "Why Don't Consumers Use Electronic Banking Products? Towards a Theory of Obstacles, Incentives, and Opportunities," Emerging Payments Occasional Paper Series EPS–2000–1 (Federal Reserve Bank of Chicago, September 2000).

13. Mantel, "Why Don't Consumers Use Electronic Banking Products?"

1. Percentage of U.S. households that use various electronic banking technologies, selected years

Technology	Survey of Consumer Finances				Surveys of Consumers		
	1995	1998	2001	Percent change, 1995 to 2001	1999	2003	Percent change, 1999 to 2003
Electronic[1]							
Direct deposit of any type	53	67	73	38	65	70	8
ATM card	35	55	58	66	59	65	10
Debit card	20	37	50	150	n.a.	54	. . .
Preauthorized debits	25	40	44	76	31	46	48
Automated phone system	n.a.[2]	26	23	. . .	40	44	10
Computer banking	4	7	21	425	10	32	220
Smart card	1	2	3	200	n.a.	6	. . .
Prepaid card	n.a.	n.a.	n.a.	. . .	n.a.	73	. . .
MEMO: Average number of electronic technologies used per household[3]	1.4	2.1	2.5	78	2.0	2.6	30
Non-electronic							
In person	87	81	78	−10	n.a.	n.a.	. . .
Mail	59	55	52	−12	n.a.	n.a.	. . .
Phone (talk in person)	n.a.[2]	43	43	. . .	n.a.	n.a.	. . .
MEMO: Average number of non-electronic technologies used per household	1.7	1.8	1.7	0	n.a.	n.a.	. . .

NOTE. In this and subsequent tables, the data are for only those households that have an account at a bank, thrift institution, or credit union.

1. The following language was used in the questions to distinguish among debit cards, smart cards, and prepaid cards:

DEBIT CARD. *Survey of Consumer Finances:* A debit card is a card that you can present when you buy things that automatically deducts the amount of the purchase from the money in an account that you have. Do you/does anyone in your family use any debit cards? *Surveys of Consumers:* A debit card is a card that you can use when you buy things that automatically deducts the amount of the purchase from an account that you have, like a checking account. Have you used a card that automatically deducts money from an account for a purchase in the past twelve months?

SMART CARD. *Survey of Consumer Finances:* A smart card is a type of payment card containing a computer chip which is set to hold a sum of money. As the card is used, purchases are subtracted from that sum. Do you/or anyone in your family living here have any such cards that you can use for a variety of purchases? *Surveys of Consumers:* A smart card is a type of payment card that has a computer chip, which is set to hold an amount of money. As you use the card to buy things, the value is subtracted. Smart cards are different than prepaid cards in that you can add money to the card at special machines designed for smart cards or sometimes at ATMs. Have you ever had or used a smart card?

PREPAID CARD. *Surveys of Consumers:* Prepaid cards are cards that contain a stored value, or a value that has been paid up-front, allowing you to use the card much like cash. As you use the card, the prepaid value is drawn down. Examples of prepaid cards include phone cards, gift cards, and student cards. Have you ever had or used a prepaid card or bought one as a gift?

2. Using an automated phone system and talking to a bank employee over the telephone were not separated in the 1995 Survey of Consumer Finances.

3. For the Surveys of Consumers, the averages are based on only those technologies for which data are available for both years.

n.a. Not available.

. . . Not applicable.

Finances reported that they deal in person with their bank. In the same survey, nearly three out of four households reported using some form of direct deposit (for pay, retirement benefits, or dividends, for example) and nearly three out of five reported using an ATM card.

The proportion of households banking by computer grew fivefold between 1995 and 2001 (threefold between 1999 and 2003), and the proportions using debit cards and smart cards more than doubled.[14] The proportion of households using preauthorized debits also grew considerably. It is worth noting, however, that despite the rise in the proportions of households using computer banking and smart cards, relatively small proportions of households are using these technologies. Information on the use of prepaid stored-value cards is available only for 2003, when 73 percent of households reported having some experience with these cards, including phone cards and gift cards. The average number of e-banking technologies used per household has increased in recent years, while the average number of non-electronic means of banking used has remained steady.

To look in depth at who is using e-banking products and services, this analysis focuses on the use and users of three specific technologies—debit cards, preauthorized debits, and computer banking. These three were chosen to represent different types of e-banking technologies at different stages in their development and are technologies that might attract different types of users.

- Debit cards represent the next generation of an existing and familiar technology. They operate as an extension of the widely used ATM card, by allowing consumers to pay for goods at a point of sale by directly debiting a designated bank account (usually a checking account).[15]
- Preauthorized debits represent a passive technology; once consumers sign up for automatic pay-

14. Unless otherwise noted, differences discussed in the text are statistically significant at the 95 percent level of confidence or higher.

15. Although vendors are marketing many stored-value cards as "debit" cards, the focus here is on debit cards tied to a consumer bank account.

ment of a particular bill (a mortgage or utility payment, for example), they need do little more than ensure that funds are in the account by the debit date.

- Computer banking calls for perhaps the most consumer involvement, as it requires the user to maintain and regularly interact with additional technology (a computer and an Internet connection).

Some previous research has suggested that certain demographic characteristics tend to be associated with the adoption of e-banking. For example, several studies have suggested that households with higher levels of income are more likely to use certain technologies.[16] In general, these studies have also found that younger consumers and those with more education are more likely to use e-banking. Other studies of individual e-banking technologies have shown that, when a range of other variables (age, marital status, gender, race, region, and attitudes) are controlled for, the effects of income and education vary and in some cases are not significant.[17] Racial and ethnic differences have also been found; some of these differences may be related to accessibility, as some services may be available only in English.[18]

Debit Cards

Not surprisingly, the typical household that uses a debit card has more income than the typical household that does not (table 2). Also, households using a debit card tend to be headed by someone who is younger than 45 and who has some postsecondary education. Interestingly, in 1998 and 2001 the median value of financial assets for households that did not use a debit card was higher than that for households that did use a debit card. This finding represents a change from 1995, when users had a higher median value of financial assets than non-users. And it is consistent with the finding that debit card use between 1995 and 2001 became more widespread among lower-income households; for example, 21 percent of households that used a debit card were in the bottom 40 percent of the income distribution in 1995, compared with 28 percent in 2001. Use also became more widespread among households headed by someone age 45 to 64, someone with a high school education or less, and someone classified as a minority. Thus, over the years, debit card use has become more "democratized"—that is, users have become more representative of the population as a whole. Nevertheless, it is still the case that households that use debit cards have higher incomes and tend to be headed by younger persons with more education.

Preauthorized Debits

Households using preauthorized debits tend to have higher incomes and higher levels of financial assets than non-users and to be headed by someone between 35 and 54 years old with at least a bachelor's degree. Over the period 1995 to 2001, the proportion of households using preauthorized debits rose among households with lower levels of assets, households headed by someone 75 or older, someone who had more education (bachelor's degree or higher), and someone who was black. Because preauthorized debits allow consumers to set up automatic bill payments, which may be especially convenient for older consumers, it is not surprising that the median age of users rose over time, from 45 years in 1995 to 47 years in 2001.

The proportions of households using preauthorized debits to pay utility bills and make housing payments doubled between 1995 and 2001, and the proportion using preauthorized debits to pay another type of bill (for example, to make an auto loan or lease payment) nearly doubled (table 3). The proportion using preauthorized debits to make investments or transfers to other accounts held by the consumer also rose over the years.

Computer Banking

Logic dictates that computer ownership and Internet access are related to adoption of computer banking;

16. Arthur B. Kennickell and Myron L. Kwast, "Who Uses Electronic Banking? Results From the 1995 Survey of Consumer Finances" (paper presented at the annual meeting of the Western Economic Association, Seattle, Washington, July 1997) (www.federalreserve.gov/pubs/feds/1997/199735/199735pap.pdf); Eun-Ju Lee and Jinkook Lee, "Haven't Adopted Electronic Financial Services Yet? The Acceptance and Diffusion of Electronic Banking Innovations," *Financial Counseling and Planning*, vol. 11, no. 1 (2000), pp. 49–60; Robert Rugimbana, "Predicting Automated Teller Machine Usage: The Relative Importance of Perceptual and Demographic Factors," *International Journal of Bank Marketing*, vol. 13, no. 4 (1995), pp. 26–32; and Valerie A. Zeithaml and Mary C. Gilly, "Characteristics Affecting the Acceptance of Retailing Technologies: A Comparison of Elderly and Nonelderly Consumers," *Journal of Retailing*, vol. 63, no. 1 (1987), pp. 49–86.

17. See, for example, Jane Kolodinsky and Jeanne Hogarth, "Closing the Digital 'Age' Divide: Adoption of Electronic Financial Services by Consumers Age 60+," *Consumer Interests Annual*, vol. 50 (forthcoming 2004).

18. Matthew Josefowicz and Sang Lee, "Ethnic Minorities, Financial Services, and the Web" (Celent Communications, January 2003); and Lee and Lee, "Haven't Adopted Electronic Financial Services Yet?"

2. Demographic characteristics of users and non-users of selected electronic banking technologies, selected years

Characteristic	Debit card					
	1995		1998		2001	
	Users	Non-users	Users	Non-users	Users	Non-users
Household income						
Median (2001 dollars)	47,260	36,626	48,391	36,293	51,395	37,004
Distribution of households by income percentile (percent)[1]						
20% or less	7	17	9	18	9	20
21% to 40%	14	20	17	21	19	23
41% to 60%	23	21	23	21	22	21
61% to 80%	28	21	26	19	25	17
81% to 100%	28	21	26	21	24	18
Household financial assets						
Median (2001 dollars)	21,960	18,088	25,297	27,778	26,460	32,400
Distribution of households by financial asset percentile (percent)[2]						
20% or less	8	12	10	15	12	16
21% to 40%	20	22	22	21	24	18
41% to 60%	24	22	25	20	22	21
61% to 80%	25	22	23	22	23	21
81% to 100%	24	22	20	23	19	25
Age of head of household						
Median (years)	40	48	41	51	42	54
Distribution of heads of household by age group (percent)						
Younger than 35	33	20	32	16	30	13
35 to 44	29	22	27	21	27	18
45 to 54	18	18	21	20	23	19
55 to 64	10	13	11	15	12	16
65 to 74	8	14	7	14	6	16
75 or older	3	13	3	15	4	18
Education of head of household						
Median (years)	14	13	14	13	14	12
Distribution of heads of household by level (percent)						
No high school diploma	9	18	8	19	10	19
High school diploma or GED	23	31	26	31	27	32
Some college	27	24	29	23	26	21
Bachelor's degree	22	16	22	15	23	15
Postgraduate education	18	12	14	12	14	13
Race/ethnicity of head of household						
Distribution (percent)						
White	81	83	82	81	77	82
Black	9	9	9	10	11	12
Hispanic	7	4	6	6	8	4
Other	3	4	2	4	3	2
Marital status of head of household						
Distribution (percent)						
Married	65	60	65	58	66	59
Single female	22	27	21	28	22	27
Single male	13	13	14	14	13	14
Employment status of head of household						
Distribution (percent)						
Working	83	67	84	65	84	63
Retired	11	21	9	26	9	28
Unemployed, looking for job	2	3	2	3	2	2
Unemployed, not looking for job	4	9	4	6	4	6
Homeownership status						
Distribution (percent)						
Own home	68	72	68	72	67	76
Do not own home	32	28	32	28	33	24

NOTE. In this and subsequent tables, percentage distributions may not sum to 100 because of rounding.

1. Income percentiles are based on the income of all responding households in the survey year. Thus, of debit card users in 1995, 7 percent were in the lowest 20 percent of the income distribution in that year and 28 percent were in the top 20 percent.

2. Financial asset percentiles are based on the financial assets of all responding households in the survey year. Thus, of debit card users in 1995, 8 percent were in the lowest 20 percent of all households in terms of financial assets and 24 percent were in the top 20 percent.

SOURCE. Survey of Consumer Finances.

however, many studies have been unable to control for those variables. Moreover, although access to computers has become more widespread, households may not be using them for banking and other financial management tasks.

Neither the Survey of Consumer Finances nor the Surveys of Consumers specifically identify households that have computers and Internet connections, although the SCF does ask about household use of computers and financial management software to manage money. In 2001, among households that had bank accounts, 19 percent reported using financial management software, and of that group, 49 percent used computer banking (data not shown). In addi-

2.—Continued

Preauthorized debits						Computer banking					
1995		1998		2001		1995		1998		2001	
Users	Non-users	Users	Non-users	Users	Non-users	Users	Non-users	Users	Non-users	Users	Non-users
49,623	35,445	50,590	34,093	55,506	34,948	53,168	38,990	86,884	38,493	71,953	38,032
8	17	8	19	8	20	3	15	5	15	3	18
14	21	14	23	15	26	12	19	6	20	10	24
20	22	23	21	23	21	17	21	14	22	19	23
27	21	26	19	26	18	33	22	19	22	27	20
31	20	29	18	28	15	34	22	57	20	40	16
32,940	15,291	46,468	15,456	51,000	16,900	35,714	18,504	114,619	23,457	81,350	21,500
3	14	6	17	7	19	7	12	4	14	3	17
20	22	17	24	18	24	16	22	11	22	16	22
22	22	22	21	21	22	19	22	16	22	19	22
26	21	27	19	26	18	28	22	23	22	25	21
29	21	28	18	28	18	30	22	47	20	38	18
45	46	46	47	47	48	40	46	42	47	42	49
22	23	21	22	21	22	34	22	34	21	28	20
26	22	25	22	24	21	23	23	23	23	30	20
22	17	21	19	23	19	28	18	28	19	26	20
13	13	14	13	14	13	9	13	12	14	11	14
12	13	11	12	10	12	6	13	2	12	4	13
6	12	8	11	9	12	1	11	2	11	3	13
14	13	14	12	14	12	15	13	16	13	16	12
11	18	9	19	10	19	4	17	3	16	3	18
26	31	25	32	25	33	22	30	9	31	17	33
26	24	27	24	24	23	31	24	21	25	22	24
21	16	21	16	23	16	24	17	37	17	34	15
17	11	18	10	18	9	20	12	29	12	25	10
88	81	84	80	84	76	81	83	84	81	87	78
6	10	9	10	10	13	15	9	5	10	7	13
3	5	4	7	4	8	3	5	3	6	2	7
4	4	4	3	3	3	2	4	8	3	5	2
69	59	67	57	68	58	65	61	73	60	74	60
22	27	22	28	21	27	20	26	9	27	13	27
9	14	11	16	11	15	15	13	18	14	14	13
77	68	77	69	78	70	89	69	90	71	89	70
16	20	18	21	16	21	7	20	5	21	7	22
2	3	1	3	2	2	1	3	3	2	2	2
5	9	3	7	4	6	2	8	1	6	2	6
82	67	79	65	80	66	71	71	74	70	77	71
18	33	21	35	20	34	29	29	26	30	23	29

tion, over the years the SCF has asked respondents whether they use the Internet when making decisions related to credit or borrowing and saving or investing. The proportion that reported using the Internet in making credit or borrowing decisions rose from 12 percent in 1998 to 24 percent in 2001, and the proportion that used the Internet in making saving and investment decisions rose from 9 percent to 16 percent. Data from the 2003 Surveys of Consumers indicate that 95 percent of those who use computer banking use it to monitor their accounts, 64 percent use it to transfer funds between accounts, and 55 percent use it to pay bills (data not shown).

Some data on computer and Internet access are available from the Department of Commerce. In a nationwide survey, 66 percent of individuals reported having access to a computer at some location (home, school, office, community center, library, or elsewhere) in 2001, compared with 54 percent in 1997, and 54 percent reported having Internet access in

3. Percentage of U.S. households that use preauthorized debits for various purposes, selected years

Purpose	1995	1998	2001	Percent change, 1995 to 2001
For any purpose	25	40	44	76
For utility payment	5	9	13	160
For mortgage, rent, condo, or co-op payment	7	10	14	100
For any other bill or payment	17	28	31	82
For investments or transfers to other accounts	1	4	3	200
MEMO: Average number of different types of preauthorized debits used	.3	.5	.6	100

SOURCE. Survey of Consumer Finances.

2001, compared with 22 percent in 1997.[19] Given the growth in access to computers and the Internet, it is not surprising that the proportion of households that reported using computer banking rose, from 4 percent in 1995 (SCF data) to 32 percent in 2003 (Surveys of Consumers data, table 1). In fact, computer banking was the fastest growing e-banking technology, in terms of the proportions of households using the technology, over the eight years covered by the two surveys.

Access to high-speed Internet connections also may have contributed to the spread of computer banking. In 2002, most home Internet connections were via a standard phone line (75 percent, down from 88 percent in 2000); another 17 percent of households connected to the Internet via broadband cable modem (up from 8 percent in 2000), and 5 percent used high-speed DSL (digital subscriber line; up from 1 percent in 2000).[20] In addition to finding the greater speed more satisfactory, some consumers may feel more secure conducting financial transactions through high-speed Internet access than via slower modem connections.

Households that conducted banking business via computer in 2001 had higher incomes (two-thirds were in the upper 40 percent of the income distribution) and more financial assets than those that did not (table 2). They were also more likely to be headed by someone younger than 55, someone who was white, and someone who had at least a bachelor's degree. Between 1995 and 2001, computer banking spread among those with more formal education (bachelor's degree or higher) and across a range of ages—35 to 44, 55 to 64, and 75 and over. Although the numbers involved are small, requiring caution in interpretation, the apparent spread of computer banking among those in the oldest age category is interesting.

The increase in the use of computer banking among those in older age groups has a parallel in the use of debit cards. Although users of e-banking technologies tend to be younger than 45, there is some evidence of wider adoption by older cohorts as time passes. Such evidence is to be expected, as an individual who was, say, 43, in 1995 would have moved to the 45 to 54 group by 2001. Thus, some spread among older age groups over time would be anticipated and indeed is observed.

Consumer Perceptions and the Use of E-Banking

Consumers' acceptance of technological innovations may be influenced not only by their socioeconomic and demographic characteristics, but also by their perceptions of specific technologies and by the characteristics of different products and services.[21] For example, consumers may be motivated to use some electronic banking technologies because of the perceived convenience and time saving. In one survey of computer banking users, 79 percent indicated that convenience was very important in their decision to use computer banking and 71 percent said that saving time was very important; in another survey, a large proportion of consumers said that twenty-four-hour availability was the most important factor in their use of computer banking.[22] Other studies indicate that consumers will not adopt a new financial product unless it reduces their costs and does not require them to change their behavior when using it.[23] Adoption

19. U.S. Department of Commerce, National Telecommunications and Information Administration, "A Nation Online: How Americans Are Expanding Their Use of the Internet," February 2002 (www.ntia.doc.gov/ntiahome/dn/index.html).

20. "The UCLA Internet Report: Surveying the Digital Future, Year Three" (report prepared at the UCLA Center for Communication Policy), February 2003 (www.ccp.ucla.edu/pdf/ucla-internet-report-year-three.pdf).

21. See Fred D. Davis, "Perceived Usefulness, Perceived Ease of Use, and User Acceptance of Information Technology," *MIS Quarterly*, vol. 1 (September 1989), pp. 319–39; Everett M. Rogers, *Diffusion of Innovations* (Free Press, 1995); and David Gefen and Detmar W. Straub, "Gender Differences in the Perception and Use of E-Mail: An Extension to the Technology Acceptance Model," *MIS Quarterly*, vol. 21 (December 1997), pp. 389–99.

22. Susannah Fox, "Online Banking: A Pew Internet Project Data Memo" (Pew Research Center, November 2002) (www.pewinternet.org/reports/pdfs/PIP_Online_Banking.pdf); and Andrew Lockett and Dale Littler, "The Adoption of Direct Banking Services," *Journal of Marketing Management*, vol. 13 (November 1997), pp. 791–811.

23. Gloria Barczac and Pam Scholder Ellen, "Developing Typologies of Consumer Motives for Use of Technologically-Based Banking Services," *Journal of Business Research*, vol. 38, no. 2 (1997), pp. 131–39; and John Beran, Joshua Peirez, and Ronald Prill, "Growth in Electronic Payments: What Are the Opportunities and the Barriers to Success?" (panel discussion at The Payments System in Transition conference, hosted by the Federal Reserve Payments System Development Committee, Washington, D.C., October 2003).

4. Consumers' perceptions of electronic banking, 1999 and 2003

Perception	Mean response[1]			Percent who agree or strongly agree		
	1999	2003	Memo: Percent change, 1999 to 2003	1999	2003	Percent change, 1999 to 2003
Convenience						
Electronic banking is convenient	3.8	3.9	3	76	81	7
There are enough advantages of electronic banking for me to consider using it	3.1	3.4	10	46	58	28
Electronic banking helps me to better manage my personal finances	3.0	3.3	10	37	48	30
It bothers me to use a machine for banking transactions when I could talk with a person instead	3.2	3.1	–5	53	46	–13
Familiarity and ease of use						
Electronic banking is the wave of the future	3.8	4.0	4	72	82	14
Electronic banking services are used by many people	3.7	3.9	6	70	83	19
I have the opportunity to try various electronic banking services	3.1	3.6	14	49	70	44
I have seen how others use electronic banking	3.0	3.5	18	41	64	56
I need to familiarize myself with electronic banking technology	3.5	3.3	–5	63	53	–16
Electronic banking is difficult to use	2.6	2.5	–5	21	17	–17
Security and privacy						
When I use electronic banking, my money is as safe as when I use other banking services	3.2	3.3	4	49	55	13
Mistakes with electronic banking are more difficult to get corrected than with regular banking	3.3	3.3	–2	50	49	–4
Mistakes are more likely to occur with electronic banking than with regular banking	3.0	2.9	–4	41	36	–12
I feel comfortable providing my personal information through electronic banking systems	2.7	2.9	6	35	41	15
2003 supplemental questions on security and privacy						
I worry about the privacy of my information when using electronic banking systems	n.a	3.5	...	n.a.	63	...
I worry that electronic banking systems are not secure enough to protect my personal financial information	n.a	3.2	...	n.a.	52	...
I worry that electronic banking systems are not secure enough and I could lose my money	n.a	3.0	...	n.a.	40	...

1. On a scale of 1 to 5, with 1 being "strongly disagree," 3 "neutral," and 5 "strongly agree."
n.a. Not available.
. . . Not applicable.
SOURCE. Surveys of Consumers.

has also been associated with a technology's availability and the time required to learn to use it.[24]

Some research has found that perceived ease of use and usefulness is associated with adoption of electronic technologies.[25] Still other research suggests that a lack of understanding of how specific e-banking technologies operate, of their intrinsic benefits, and of ways to acquire them is associated with lower adoption rates.[26] One study found a correlation between adoption and consumer desire for control, incentives, privacy, and personal involvement; for example, consumers who perceived a greater value in controlling their payments (such as having the ability to decide when a bill is paid and receiving a receipt of payment) were less likely to use electronic payment.[27] Finally, research has identified a user-friendly site and consumer confidence in the institution and in network security as important in the decision to use computer banking.[28]

The 1999 and 2003 Surveys of Consumers sought to measure perceptions of e-banking by asking respondents to indicate their degree of agreement or disagreement with a set of statements about electronic banking. The statements generally related to three aspects of e-banking found by some studies to be related to consumer adoption and use of e-banking products and services: convenience, familiarity and ease of use, and security and privacy.

Between 1999 and 2003, consumers' perceptions of e-banking became more positive in all three areas (table 4). Compared with those in 1999, respondents as a whole in 2003 were more likely to agree or strongly agree with positive statements about

24. Orazio P. Attanasio, Luigi Guiso, and Tullio Jappelli, "The Demand for Money, Financial Innovation, and the Welfare Cost of Inflation: An Analysis with Household Data," *Journal of Political Economy*, vol. 110 (April 2002), pp. 317–55.

25. Davis, "Perceived Usefulness, Perceived Ease of Use, and User Acceptance of Information Technology"; Brian Mantel, "Why Do Consumers Pay Bills Electronically? An Empirical Analysis," *Economic Perspectives* (Fourth quarter, 2000), pp. 32–47; and Jane Kolodinsky and Jeanne Hogarth, "The Adoption of Electronic Banking Technologies by American Consumers," *Consumer Interests Annual*, vol. 47, (2001) (www.consumerinterests.org/public/articles/Kolodinsky,_Hogarth.pdf).

26. Federal Reserve Bank of St. Louis, "A Summary of Consumer and Business Attitudes on Direct Deposit and Direct Payment: A National ACH Market Research Study" (Federal Reserve Bank of St. Louis, 1998) (www.stlouisfed.org/financial/assets/pdf/summary.pdf); and Mantel "Why Do Consumers Pay Bills Electronically?"

27. Mantel, "Why Do Consumers Pay Bills Electronically?"

28. Alenka Grealish, "Online Banking Adoption: Beyond the Tip of the Iceberg" (Celent Communications, November 2002).

5. Percentage of U.S. households that use various electronic banking technologies, by perception index level, 1999 and 2003

Technology	All households		Index and level: Convenience					
			Low		Medium		High	
	1999	2003	1999	2003	1999	2003	1999	2003
Direct deposit of any type	65	70	60	66	66	68	71	74
ATM card	59	65	38	41	59	61	87	84
Debit card	n.a	54	n.a.	30	n.a.	52	n.a.	72
Preauthorized debits	31	46	22	30	30	45	42	58
Automated phone system	40	44	20	28	39	42	65	57
Computer banking	10	32	2	3	5	21	27	59
Smart card	n.a	6	n.a.	2	n.a.	6	n.a.	8
Prepaid card	n.a	73	n.a.	64	n.a.	71	n.a.	83
Other online financial services	n.a	29	n.a.	8	n.a.	23	n.a.	46
Electronic check conversion	n.a	30	n.a.	22	n.a.	27	n.a.	39
Electronic fund transfer	23	n.a	12	n.a.	21	n.a.	40	n.a.
MEMO: Distribution of households								
1999	100		32		37		31	
2003	100		24		35		41	

n.a. Not available.

SOURCE. Surveys of Consumers.

e-banking (for example, "There are enough advantages of electronic banking for me to consider using it") and less likely to agree or strongly agree with negative statements (for example, "Electronic banking is difficult to use"). The greatest changes concerned familiarity with e-banking and its perceived ease of use. For example, more than two-thirds of respondents in 2003 reported having had an opportunity to try various e-banking services, compared with just under half in 1999. With respect to convenience, although more than three-fourths of respondents in both years agreed that e-banking is convenient, fewer than half in both years agreed that e-banking helps them better manage their personal finances.

Respondents were more likely in 2003 than in 1999 to believe that their money is as safe using e-banking as when using other banking services (55 percent compared with 49 percent). They were just as likely to believe that mistakes are more difficult to get corrected with e-banking than with regular banking (49 percent in 2003 compared with 50 percent in 1999). Privacy remains a major concern: Fewer than half of respondents in both years said that they feel comfortable providing personal information through e-banking systems.

To quantify the strength of consumers' perceptions on the three aspects of e-banking associated with adoption—convenience, familiarity and ease of use, and security and privacy—an index was created for each and respondents were placed in one of three groups according to their score on each index: low, score of 50 percent or less on the index; medium, score of 51 percent through 74 percent; and high, score of 75 percent or higher. A higher score indicates a more positive perception of that aspect of e-banking. (For information on how the indexes were constructed, see appendix B.)

For each of the three indexes, a larger proportion of respondents were classified as high in 2003 than in 1999, and a smaller proportion of respondents were classified as low (table 5). The convenience index had the greatest proportion in the high group in 1999; by 2003, the convenience index and the familiarity and ease of use index had nearly equal proportions in the high group. Although the proportion of respondents in the high group on the security and privacy index rose between 1999 and 2003, the proportion remained lower than that for the other indexes. These results suggest that although more consumers believe that e-banking is convenient, have become familiar with e-banking technologies, and believe that the technologies are easy to use, many remain concerned about security and privacy when using e-banking products and services.

In both 1999 and 2003, on each of the three indexes, respondents having low perception scores generally were less likely to be users of these e-banking technologies than respondents having medium or high scores. Over the four-year period, the use of some of the technologies, including computer banking, spread disproportionately among those with high scores. For example, while the proportion of respondents classified as low on the convenience index who used computer banking rose from 2 percent to 3 percent between 1999 and 2003, the proportion classified as high on that index who used computer banking rose from 27 percent to 59 percent. The data are tantalizingly unrevealing as to causes;

5.—Continued

Index and level											
Familiarity and ease of use						Security and privacy					
Low		Medium		High		Low		Medium		High	
1999	2003	1999	2003	1999	2003	1999	2003	1999	2003	1999	2003
67	53	63	70	70	72	64	63	65	70	72	81
26	44	59	59	81	78	51	54	63	68	84	81
n.a.	24	n.a.	51	n.a.	64	n.a.	45	n.a.	59	n.a.	65
16	22	29	45	42	53	26	28	32	54	41	62
21	17	37	40	59	54	30	33	45	50	59	54
1	5	9	26	19	44	4	12	11	33	27	63
n.a.	6	n.a.	5	n.a.	8	n.a.	5	n.a.	8	n.a.	5
n.a.	36	n.a.	74	n.a.	81	n.a.	65	n.a.	80	n.a.	81
n.a.	11	n.a.	23	n.a.	39	n.a.	13	n.a.	30	n.a.	52
n.a.	20	n.a.	24	n.a.	40	n.a.	27	n.a.	33	n.a.	34
10	n.a.	22	n.a.	35	n.a.	16	n.a.	26	n.a.	38	n.a.
14		59		28		43		38		19	
7		51		42		36		39		24	

whether adoption influenced attitudes or attitudes influenced adoption is unknown.

In general, respondents having more positive perceptions of e-banking technologies are younger, have more education, live in households that have higher incomes, and have more children than respondents having medium or low perception scores (table 6). Respondents with high scores also tend to be more optimistic that business conditions will improve over the coming year and that their income will increase more than inflation over the next year or two (data not shown).

Availability and Future Use of E-Banking

Changes in the proportions of households using some electronic banking technologies may be related not only to the availability of the technologies but also to consumers' awareness of their availability. In 1999, 72 percent of non-user respondents to the Surveys of Consumers knew that their bank offered preauthorized debits and 52 percent knew that their bank offered computer banking (data not shown). By 2003, these proportions had risen to 82 percent and 79 percent respectively.

The Surveys of Consumers data present a somewhat mixed picture of the likely future use of preauthorized debits and computer banking. For both technologies, the proportions of respondents using them increased between 1999 and 2003, and among these users, more than 90 percent in both survey years said that in the next twelve months they would use the technologies more frequently or the same number of times (data not shown). However, among non-users, the proportions who said they were likely to start using the technologies in the next twelve months decreased, as did the proportions who were unlikely to start using them over that period but might in the future (table 7). Among all respondents, the proportions who said they would probably never use the two technologies remained fairly stable across the four years, although among non-users, the proportions rose. It is interesting to note that the percentage point increases from 1999 to 2003 for the "already use" group match the proportions of respondents who said in 1999 that they were likely to start using the technologies in the next twelve months.

The Survey of Consumer Finances also offers some information about the possible future use of e-banking technologies among the unbanked. In the 2001 SCF, 19 percent of unbanked households reported using a debit card (up from 2 percent in 1995 and 4 percent in 1998) (data not shown). Although by definition these cards were not debit cards, as these households did not have a bank account to which the cards could be tied (most likely they were some type of stored-value card marketed as debit cards), the data nevertheless indicate the willingness of unbanked consumers to use e-banking technologies. This willingness in turn supports those who believe that e-banking is a way of bringing households without bank accounts into the financial mainstream.[29] Unbanked households that are familiar with and willing to use some electronic technologies

29. Michael A. Stegman, *Savings for the Poor: The Hidden Benefits of Electronic Banking* (Brookings Institution Press, 2000).

6. Demographic characteristics of households by perception index level, 1999 and 2003

Characteristic	Convenience					
	Low		Medium		High	
	1999	2003	1999	2003	1999	2003
Household income						
Median (2003 dollars)	38,613	47,000	44,130	45,000	55,162	54,000
Age of respondent						
Median (years)	52	56	43	45	39	39
Education of respondent						
Median (years)	13	14	13	14	14	15
Distribution of respondents by level (percent)						
High school diploma or less	46	40	44	35	24	22
Some college	23	17	19	22	25	27
Bachelor's degree or more	29	42	36	43	50	51
No response	3	2	1	...	1	0
Race/ethnicity of respondent						
Distribution (percent)						
White	86	87	78	78	81	80
Black	8	4	11	8	9	6
Hispanic	3	2	7	10	6	6
Other	1	4	3	3	2	4
No response	3	3	2	1	3	4
Marital status of respondent						
Distribution (percent)						
Married	62	56	57	64	54	60
Single female	26	31	25	23	27	22
Single male	12	13	19	13	19	18
Homeownership status						
Distribution (percent)						
Own home	79	82	66	69	63	73
Do not own home	21	18	34	31	37	27
Household makeup						
Mean number of children	.6	.5	.7	.7	.8	.9
Mean number of adults	1.8	1.7	1.8	2.0	1.9	2.0
Region						
Distribution (percent)						
West	18	20	18	24	29	22
Midwest	26	32	22	20	25	24
Northeast	22	20	21	18	16	17
South	34	29	39	38	31	37

... Not applicable.

Source. Surveys of Consumers.

may be accepting of all-electronic accounts, such as the Electronic Transfer Accounts introduced by the Department of the Treasury, as a transition into the financial mainstream.

7. Expectations about future use of selected electronic banking technologies among users and non-users, 1999 and 2003

Percent

User status and expectation	Technology			
	Preauthorized debits		Computer banking	
	1999	2003	1999	2003
Already using and will continue to use	31	46	10	32
Current non-user, likely to start using in next 12 months	15	10	22	14
Current non-user, unlikely to start using in next 12 months but may use at some point in the future	21	15	29	18
Current non-user, probably will never use	33	29	39	36
All respondents	100	100	100	100

Source. Surveys of Consumers.

Implications of E-Banking for Consumer Education

The patterns of use of e-banking products and services and the changing socioeconomic and demographic characteristics of users present some interesting challenges for those who provide financial education for consumers. The spread of debit cards and preauthorized debits among a broader range of income, asset, age, and education groups is a prime example of these challenges. Although users of debit cards are operating on a cash, rather than credit, basis—something financial planners and consumer educators generally recommend, especially for those having difficulty managing their finances—they may not be using a check register as an accounting device. The challenge for consumer educators is finding ways to help consumers track balances and record debit transactions. Similarly, preauthorized debits are a good financial management tool to help consumers

6.—Continued

Familiarity and ease of use						Security and privacy					
Low		Medium		High		Low		Medium		High	
1999	2003	1999	2003	1999	2003	1999	2003	1999	2003	1999	2003
29,788	35,000	49,646	50,000	48,543	50,000	41,923	45,000	48,543	48,000	55,162	60,000
62	64	44	47	38	41	47	50	41	43	42	41
12	13	14	14	14	14	13	14	14	14	14	15
63	44	39	33	26	26	45	38	35	31	29	18
18	18	18	23	31	23	21	21	22	23	23	25
16	37	41	44	43	51	31	40	43	45	48	57
3	1	1	1	1	0	2	1	0	0	1	. . .
84	84	81	82	80	80	81	79	81	80	84	85
7	4	9	6	11	7	11	7	9	8	5	4
4	4	5	6	6	7	4	6	5	8	7	4
1	6	2	4	2	3	1	5	3	2	2	5
4	3	3	2	1	3	3	3	2	2	2	3
55	55	59	62	56	59	59	60	56	61	58	62
29	34	24	21	28	26	25	23	26	26	26	23
16	11	17	16	16	15	16	17	18	13	16	16
81	73	72	73	60	75	73	72	67	72	66	79
19	27	28	27	40	25	27	28	33	28	34	21
.3	.5	.7	.6	.8	.9	.7	.6	.6	.8	.7	.7
1.7	1.7	1.8	1.9	1.9	2.0	1.8	1.9	1.8	2.0	1.8	1.9
20	17	21	23	23	23	19	24	22	21	26	23
17	22	27	25	20	25	24	27	26	24	21	23
19	33	19	17	22	16	19	16	19	18	23	21
44	28	33	35	36	36	38	33	34	37	30	33

pay bills on time (and avoid derogatory data in their credit reports), but they work only if there are enough funds in the account to cover the debit. For consumers who rely on "float" to cover bill payments, managing funds to make certain enough money is in the account becomes very important.

Despite the growing democratization in the use of some e-banking technologies, there is still some evidence that lower-income households are less likely to adopt some of these technologies, at least when it comes to overall financial management. Households that use computers for banking still tend to have higher incomes and more formal education. Although access to computers has become more widespread, households are not necessarily using them for banking, and many are not using them for other financial management tasks or comparison shopping. Consumer educators could help low- and moderate-income families understand how to use computers and the Internet for a wide range of financial management tasks, including computer banking, account management, and comparison shopping for financial products and services.

Stored-value cards hold the promise of being a helpful cash management tool, but they also present some challenges to users in the areas of tracking remaining balances and understanding the terms and conditions of the cards. Some cards can be registered so that a lost or stolen card can be replaced, but others have no such provision, meaning that a lost card is the same as lost cash. Some cards charge fees—for example, an inactivity fee that could be assessed monthly until the balance on the card is used up. Consumer educators need to encourage consumers to learn about the terms and conditions of the stored-value cards they use and understand how they can get the most value from them, be they gift cards, phone cards, or payroll cards.

Conclusion

Data from the Survey of Consumer Finances and the Surveys of Consumers show a consistent increase over the past eight years in the proportion of consumers using a variety of electronic banking technologies, from such long-available products and services as ATM cards and direct deposit to such newer technologies as debit cards and computer banking. The use of some products, particularly debit cards, has become more democratized over time, but it is still the case that most e-banking products tend to be used by higher income, higher asset, younger, and better educated households.

In light of the growth in the proportion of consumers using e-banking technologies, it may not be surprising that the annual volume of electronic payments was expected to exceed the volume of checks for the first time in 2003.[30] However, not all banking services may be adaptable to electronic delivery. For a variety of reasons, some related to the product and others to consumer preferences, delivery channels for some products will probably remain more traditional. For example, although the number of online mortgage applications has risen in recent years, consumers may prefer personal contact with financial institution staff when engaging in complex transactions such as mortgages.[31]

E-banking technologies are continuing to evolve, and many new products and services are on the horizon. The Department of the Treasury, for example, which is moving toward an all-electronic Treasury, has several new programs in place or in planning stages. For example, it provides the U.S. Debit Card, a mechanism for delivering nonrecurring payments to individuals and enabling federal government employees to access cash as part of their official duties. The Treasury is also replacing coin and currency in circulation on military bases, ships, and other locations worldwide with stored-value cards.[32] In addition, the Treasury is considering a plan to stop issuing paper savings bond certificates and to instead issue electronic savings bonds. Consumers would purchase the savings bonds online instead of at financial institutions, and the bonds would be stored electronically, as Treasury bills, notes, and bonds are currently.

E-banking technologies hold the promise of helping families manage their money, pay their bills on time, and avoid overextending themselves with credit. To take full advantage of these technologies, consumers need to be aware of the evolving array of e-banking technologies available to them and to understand how different technologies fit with their financial management needs. Financial planners and consumer educators, working with both families and financial institutions, can help this promise become a reality.

Appendix A: Sources of Data

The data on which this article is based come from two nationally representative surveys—the triennial Survey of Consumer Finances and the monthly Surveys of Consumers. Although the surveys have different sampling schemes and differ in some other ways, the data from the two are sufficiently comparable to give a general picture of consumer use and perceptions of electronic banking technologies. Data from the two surveys were not combined for analysis; rather, a separate analysis was carried out on each data set, and the results in some discussions were viewed together to extend the period of analysis and thus get a better idea about trends.

In general, the terms "households," "consumers," "families," and "respondents" are used interchangeably in discussions of the data and elsewhere in the article. To be specific, however, data from the Survey of Consumer Finances are for what was referred to as the "primary economic unit," defined as an economically dominant single individual or couple (married or living as partners) in a household and all other individuals in the household who are financially dependent on that individual or couple. For example, in the case of a household composed of a married couple who own their home, a minor child, a dependent adult child, and a financially independent parent of one of the members of the couple, the primary economic unit would be the couple and the two children. Data from the Surveys of Consumers are for "families," defined as any group of persons living together who are related by marriage, blood, or adoption or any individual living alone or with a person or persons to whom the individual is not related.

30. Remarks by Chairman Alan Greenspan, The Payments System in Transition conference, Washington, D.C., October 29, 2003 (www.federalreserve.gov/boarddocs/speeches/2003/20031029/default.htm).

31. Gerard Prendergast and Norman Marr, "Challenging Human Interaction in the Delivery of Banking Services: New Zealand as a Microcosm of European Banking in the Future?" *Journal of Euromarketing*, vol. 4, no. 1 (1994), pp. 83–98.

32. See Congressional Budget Office, "Emerging Electronic Methods for Making Retail Payments" (Congressional Budget Office, 1996) (ftp://ftp.cbo.gov/0xx/doc14/Elecpay.pdf); and "FMS' Electronic Commerce Initiatives," FMS Fact Sheet (www.fms.treas.gov/news/factsheets/ec.html).

Survey of Consumer Finances

The Survey of Consumer Finances (SCF) is a triennial survey of U.S. families (defined as primary economic units, as noted above) sponsored by the Federal Reserve, in cooperation with the Internal Revenue Service, Statistics of Income Division, and conducted by NORC, a national organization for research at the University of Chicago.[33] The survey provides detailed information on U.S. families' balance sheets, use of financial services, demographics, and labor force participation. The great majority of interviews were conducted in person, although interviewers were allowed to conduct telephone interviews if that was more convenient for the respondent. Interviewers used a program running on laptop computers to administer the survey and collect the data. Respondents were encouraged to consult their records as necessary during the interviews.

To gather information that is both representative of the U.S. population and reliable for those assets concentrated in affluent households, the SCF employs a dual-frame sample design consisting of a standard, geographically based random sample and an oversample of affluent households. Weights are used to combine data from the two samples so that the data from the sample families represent the population of all families.[34] A total of 4,299 households (representing 99.0 million families) were interviewed for the 1995 survey; 4,309 households (representing 102.6 million families) for the 1998 survey; and 4,449 households (representing 106.5 million families) for the 2001 survey. Missing data—missing because of lack of response to individual interview questions, for example—are imputed by making multiple estimates of the missing data to allow for an estimate of uncertainty.

The analysis was restricted to those households that reported having an account with a bank, thrift institution, or credit union. For the 1995 survey, this group constituted 87.6 percent of households; for the 1998 survey, 90.5 percent; and for the 2001 survey, 90.9 percent.

33. See Arthur B. Kennickell, "Wealth Measurement in the Survey of Consumer Finances: Methodology and Directions for Future Research" (paper prepared for the annual meetings of the American Association for Public Opinion Research, Portland, Oregon, May 2000) (www.federalreserve.gov/pubs/oss/oss2/papers/measurement.pdf) and references cited therein.

34. See Arthur B. Kennickell, "Revisions to the SCF Weighting Methodology: Accounting for Race/Ethnicity and Homeownership" (Board of Governors of the Federal Reserve System, January 1999) (www.federalreserve.gov/pubs/oss/oss2/papers/weight.revision.pdf).

Surveys of Consumers

The Surveys of Consumers, initiated in the late 1940s by the Survey Research Center at the University of Michigan, measures changes in consumer attitudes and expectations with regard to consumer finance decisions.[35] Each monthly survey of about 500 households includes a set of core questions. For the October and November 1999 and June and July 2003 surveys, the Federal Reserve Board commissioned additional questions concerning households' use and perceptions of electronic banking technologies. Some of these additional questions were based on questions in the Survey of Consumer Finances to allow for comparison of responses to the two surveys.

Interviews were conducted by telephone, with telephone numbers drawn from a cluster sample of residential numbers. The sample was chosen to be broadly representative of the four main regions of the country—Northeast, Midwest, South, and West—in proportion to their populations. Alaska and Hawaii were not included. For each telephone number drawn, an adult in the family (as previously defined) was randomly selected as the respondent. The surveys yielded data from 1,000 respondents in 1999 (October and November surveys combined) and 1,002 respondents in 2003 (June and July surveys combined). The collected data were weighted to be representative of the population as a whole, thereby correcting for differences among families in the probability of their being selected as survey respondents. All survey data in the tables are based on weighted observations.

As with the Survey of Consumer Finances, the analysis was restricted to those households that reported having an account with a bank, thrift institution, or credit union. For the 1999 survey, this group constituted 87.1 percent of households, and for the 2003 survey, 85.5 percent.

APPENDIX B: E-BANKING PERCEPTION INDEXES

The additional questions asked in the 1999 and 2003 Surveys of Consumers (see appendix A) included a set of positive and negative statements about electronic banking, such as "Electronic banking helps me to better manage my personal finances" and "Mistakes are more likely to occur with electronic banking

35. See Richard T. Curtin, "Surveys of Consumers," for more information on sample design, questionnaire development, and interviewing protocols (http://athena.sca.isr.umich.edu/scripts/info/info.asp).

than with regular banking." Respondents were asked to indicate their level of agreement or disagreement with each statement on a five-point scale, from "strongly disagree" to "strongly agree."

The statements were grouped into three sets reflecting characteristics found by earlier research to be associated with adoption of electronic technologies: convenience, familiarity and ease of use, and security and privacy.[36] These three sets of statements were used to create three indexes of perceptions of electronic banking. The statements that make up each of the indexes are shown in table 4. The additional statements about security and privacy included only in the 2003 surveys were not used in the security and privacy index.

Each respondent's view of e-banking on each perception index was rated as high, medium, or low. First, each response was assigned a numerical value—5 for strongly agree, 4 for agree, 3 for neutral, 2 for disagree, and 1 for strongly disagree. Then, because some statements were positive (for example, "Electronic banking is convenient") while others were negative (for example, "Electronic banking is difficult to use"), the responses to the negative statements were reversed to a positive scale. For example, a response of "strongly agree" to the statement "Electronic banking is difficult to use," which was initially assigned the numerical value of 5, was recoded as a response of "strongly disagree" with the statement's opposite ("Electronic banking is easy to use") and thus was assigned a value of 1. This recoding of responses to negative statements meant that higher scores reflected more-positive attitudes toward e-banking. For example, a total score of 20 on the convenience index, which is made up of four statements, would indicate a very positive perception—a "strongly agree" response to each of the four statements.

Finally, each respondent's total score on each index was calculated as a percentage of the maximum possible score on that index—20 on the convenience index, 30 on the familiarity and ease of use index, and 20 on the security and privacy index. Households having a score of 75 percent or higher were classified as "high," those scoring 51 percent through 74 percent were classified as "medium," and those scoring 50 percent or lower were classified as "low." □

36. See Davis, "Perceived Usefulness, Perceived Ease of Use, and User Acceptance of Information Technology"; and Mantel, "Why Do Consumers Pay Bills Electronically?"

Recent Developments in Cross-Border Investment in Securities

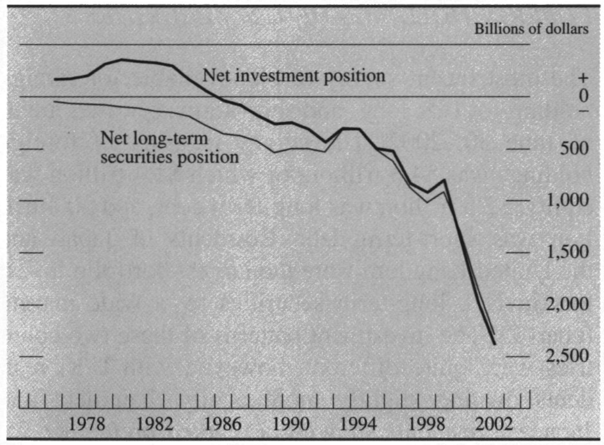
Carol C. Bertaut and William L. Griever, of the Board's Division of International Finance, prepared this article. Jillian E. Faucette provided research assistance.

Securities have replaced bank lending in recent years as the primary means through which funds are invested internationally, and in the process, the share of U.S. securities owned by foreigners has grown markedly. For example, between December 1974 and June 2002, the proportion of the value of outstanding U.S. equities and long-term debt securities that was foreign-owned increased from about 5 percent to about 12 percent.[1] During the same period, the value of these foreign holdings increased from $67 billion to almost $4 trillion.

U.S. holdings of foreign long-term securities have also increased over this period, although their growth has not matched the rapid growth in foreign holdings of U.S. long-term securities. At $1.8 trillion, the value of U.S. holdings of foreign long-term securities at the end of 2002 was less than half the value of foreign holdings of U.S. securities; this difference resulted in a negative net international position in long-term securities of $2.3 trillion. This disparity is also reflected in the more comprehensive U.S. international investment position, which is the value of all U.S. holdings of foreign assets minus the value of all foreign holdings of U.S. assets (chart 1). On this more comprehensive basis, the United States has for some years been the world's largest net debtor country. In recent years, the path of the net international investment position has closely mirrored that of the net long-term securities position.

The U.S. system for measuring cross-border investment in long-term securities consists of annual surveys measuring *holdings* of securities and monthly reports measuring *transactions* in securities.[2] The data are part of the Treasury International Capital (TIC) reporting system (www.treas.gov/tic). The data on holdings are collected on a security-by-security basis, whereas the transactions data are collected on an aggregated basis. Because the holdings data are security-specific, they permit extensive verification and are thus considered highly reliable. But because the data require thorough editing, they are available only after a lag of about one year. The transactions data, in contrast, are available after only forty-five days; they provide information on the magnitude and geography of recent cross-border flows as well as a broad categorization of the types of instruments giving rise to these flows. Estimates of securities hold-

1. Net U.S. international investment position and net U.S. long-term securities position, 1976–2002



NOTE. Direct investment is valued on a current-cost basis. See text note 1 for definition of long-term securities as used here and in subsequent charts.

SOURCE. Bureau of Economic Analysis, *Survey of Current Business;* and the Treasury International Capital reporting system.

1. Hereafter we will refer to this set of instruments, whether of foreign or U.S. origin, as long-term securities. Long-term debt has an original maturity of more than one year. All holdings of securities mentioned in this report pertain to portfolio investment holdings and exclude direct investment holdings. Direct investment means the ownership or control, directly or indirectly, by one person or by a group of affiliated persons, of 10 percent or more of the voting stock of an incorporated business enterprise, or an equivalent interest in an unincorporated enterprise.

2. Surveys of foreign holdings of U.S. securities (liabilities) are conducted as of June 30, and surveys of U.S. holdings of foreign securities (assets) are conducted as of December 31. The annual surveys consist of a benchmark survey every five years and only slightly smaller sample surveys in the intervening years. The smaller surveys collect data from the largest reporters in the most recent benchmark survey that collectively accounted for approximately 90 percent of the data reported on that survey.

ings can be updated with the more-recent data on transactions.[3]

This article reports the latest survey data on holdings as well as the more-recent transactions data. The discussion focuses on U.S. cross-border securities activity, but it also addresses the investment patterns of some other countries and describes initiatives to improve the measurement of cross-border securities investments.

Foreign Holdings of U.S. Securities

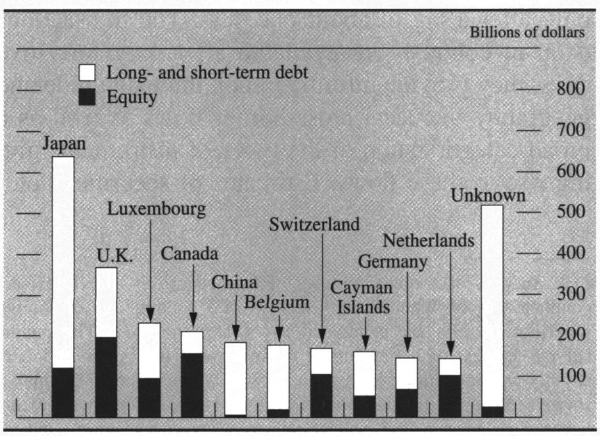
The most recent survey results available for foreign holdings of U.S. long- and short-term securities are as of June 30, 2002. The survey measure of foreign holdings was \$4.3 trillion, of which \$1.4 trillion was equity, \$2.5 trillion was long-term debt, and \$0.4 trillion was short-term debt. Residents of Japan and the United Kingdom were the largest portfolio investors in U.S. long-term securities by a wide margin (chart 2). The investment patterns of these two countries were quite different, however, with U.K. residents owning slightly more equity than debt and Japanese residents showing a marked preference for U.S. debt. These two countries have also been the top holders of U.S. securities in each of the past four surveys, with Japan having the largest holdings in 1989 and 1994 and the United Kingdom having the largest in 2000 (not shown in chart).[4]

Although data on the total level of foreign holdings of U.S. securities as measured by the surveys are considered reliable, the country attribution of these holdings is far from perfect, mainly because of two problems. The first problem arises when the foreign owner of a U.S. security entrusts the safekeeping of the security to an institution that is neither in the United States nor in the foreign owner's country of residence. For example, a resident of Germany may buy a U.S. security and place it in the custody of a Swiss bank. Normally the Swiss bank will then employ a U.S.-resident custodian bank to act as its foreign subcustodian for the security to facilitate settlement and custody operations. When portfolio surveys are conducted, information is collected only from U.S.-resident entities. Thus, the U.S.-resident bank, acting as the subcustodian of the Swiss bank, will report this security on the survey. Because the U.S. bank will typically know only that it is holding the security on behalf of a Swiss bank, it will report the security as Swiss-held. Among the countries with the largest holdings of U.S. securities, five of them—Belgium, the Cayman Islands, Luxembourg, Switzerland, and the United Kingdom—are financial centers in which substantial amounts of securities owned by residents of other countries are held in custody. Perhaps the greatest distortion in country attribution is reflected in the level of holdings attributed to Luxembourg, a country with an estimated gross domestic product of \$20 billion in 2002 that is credited with holdings of \$229 billion.

The second problem affecting country attribution is caused by bearer, or unregistered, securities. Usually, little or no information is available on the owners of these securities because they need not make themselves known. Bearer securities generally cannot be issued in the United States, but U.S. firms can and do issue such securities abroad. The vast majority of the \$492 billion in debt securities attributed to owners whose country of residence is unknown are bearer securities.

The percentage of U.S. long-term securities that are foreign-owned has increased significantly over time, particularly in recent years (chart 3, top panel). On a share basis, foreign investment is highest in U.S. Treasury securities: Foreign investors owned 41 percent of the total outstanding as of June 30, 2002 (chart 3, second panel). Foreign official institutions, which consist mainly of central banks and other

2. Foreign holders of U.S. securities, by selected country of residence, June 30, 2002

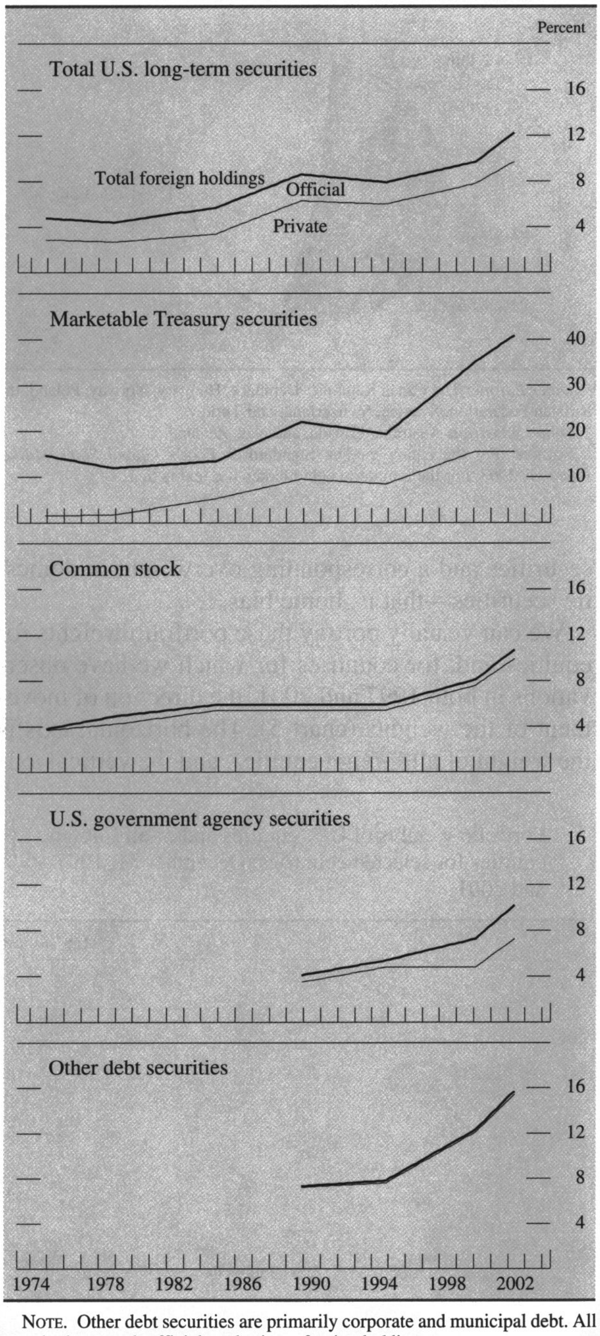


NOTE. Such holdings by all other countries total \$1.4 trillion.

3. For a comprehensive discussion of the U.S. system for measuring cross-border securities activity, including a description of the methodology for computing estimated holdings, see William L. Griever, Gary A. Lee, and Francis E. Warnock, "The U.S. System for Measuring Cross-Border Investment in Securities: A Primer with a Discussion of Recent Developments," *Federal Reserve Bulletin*, vol. 87 (October 2001), pp. 633–50, available at www.federalreserve.gov/pubs/bulletin/2001/1001lead.pdf.

4. For findings from the survey, see www.treas.gov/tic/fpis.html.

3. Foreign holdings of U.S. long-term securities as a share of such securities outstanding, December 1974–June 2002



NOTE. Other debt securities are primarily corporate and municipal debt. All panels show total, official, and private foreign holdings.

foreign government bodies responsible for conducting monetary policy or stabilizing exchange rates, are the primary foreign holders of long-term U.S. Treasury securities. We present data for official institutions separately because the motivations of official and private investors may differ. Foreign ownership of other classes of U.S. securities ranges from 11 percent to 16 percent of the total outstanding and consists mainly of holdings of foreign private investors (chart 3, bottom three panels).

Foreign Investment Patterns

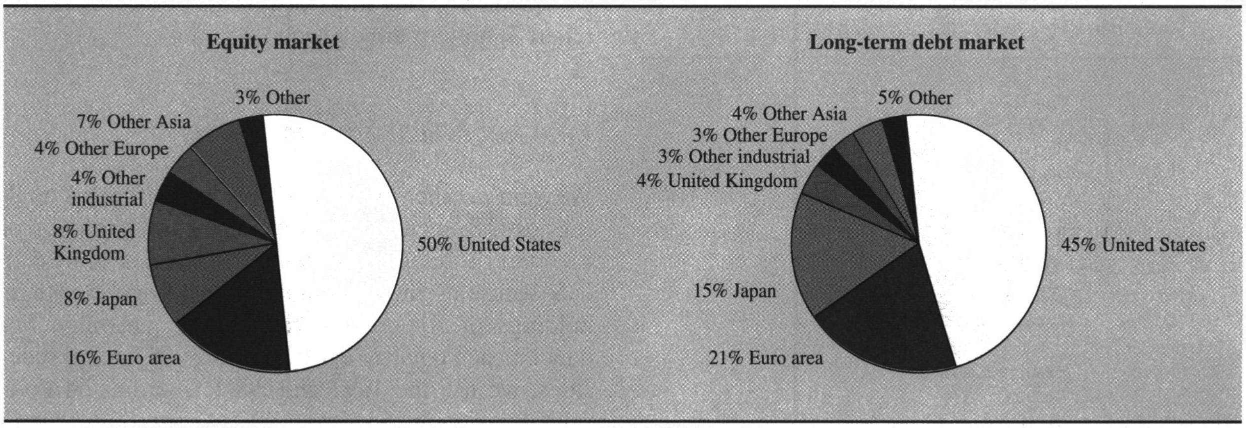
We gain another useful perspective on foreign holdings of U.S. securities by examining what fraction of a country's total investment in securities is held in U.S. securities and by comparing that fraction with its holdings of foreign securities more generally. For data on each country's total holdings of foreign securities, we use the 1997 and 2001 Coordinated Portfolio Investment Surveys (CPIS), discussed later in this article. As explained in the appendix, we also compare the CPIS data on holdings of U.S. securities with our estimates as derived from the U.S. liabilities surveys.

For estimates of each country's holdings of domestic equities and domestic long-term debt, we use the country's financial balance sheets. The holdings of domestic securities, combined with the CPIS estimates of holdings of foreign securities, give a measure of each country's total portfolio investment in equities and long-term debt. The following charts include only the countries for which all the relevant data could be found.

We compare foreign portfolio holdings with a standard model of portfolio allocation, the international capital asset pricing model, or ICAPM. If all investors followed the ICAPM, the proportions of equities and long-term debt securities in their portfolios would match the market shares of these securities. For example, as of year-end 2001, U.S. equities made up 50 percent of all equities outstanding worldwide (chart 4, left panel). The U.S. share of the global long-term debt market was 45 percent (chart 4, right panel).[5] Thus, if U.S. securities were distributed in foreign portfolios at year-end 2001 according to the ICAPM allocation, each country would hold 50 percent of its equity portfolio and 45 percent of its long-term debt portfolio in U.S. securities. To assess how close foreign portfolios come to this distribution

5. Global long-term debt market shares are staff calculations derived from unpublished estimates by the Bank for International Settlements (BIS) of domestic long-tem debt and from published BIS estimates of long-term international debt adjusted to include estimates of Brady bonds from Merrill Lynch, *Size and Structure of the World Bond Markets: 2002*. See John D. Burger and Francis E. Warnock, "Foreign Participation in Local Currency Bond Markets," International Finance Discussion Papers (Board of Governors of the Federal Reserve System, forthcoming).

4. Share of each country's domestic securities in the global securities markets, December 31, 2001



NOTE. The *euro area* consists of countries that were members of the euro area as of December 2001: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain.

Other Asia: China, Hong Kong, India, Indonesia, Israel, Korea, Malaysia, the Philippines, Singapore, Taiwan, and Thailand.

Other Europe: The Czech Republic, Denmark, Hungary, Norway, Poland, the Russian Federation, Sweden, Switzerland, and Turkey.

Other industrial: Australia, Canada, and New Zealand.

SOURCE. For the equity market, Standard & Poor's *Global Stock Market Factbook 2003*. For the long-term debt market, see text note 5.

pattern, we construct a measure for a country's portfolio weight of U.S. securities:

$$\text{Portfolio weight of U.S. securities for country X} = \frac{\dfrac{\text{X's U.S. holdings}}{\text{X's total holdings}}}{\dfrac{\text{size of U.S. market}}{\text{size of global market}}}$$

Thus, if a country holds half of its equity portfolio in U.S. equities, the portfolio weight will be 1. A value of less than 1 implies that the portfolio is underweight in U.S. securities relative to the ICAPM distribution; a value of greater than 1 implies that the portfolio is overweight in U.S. securities.

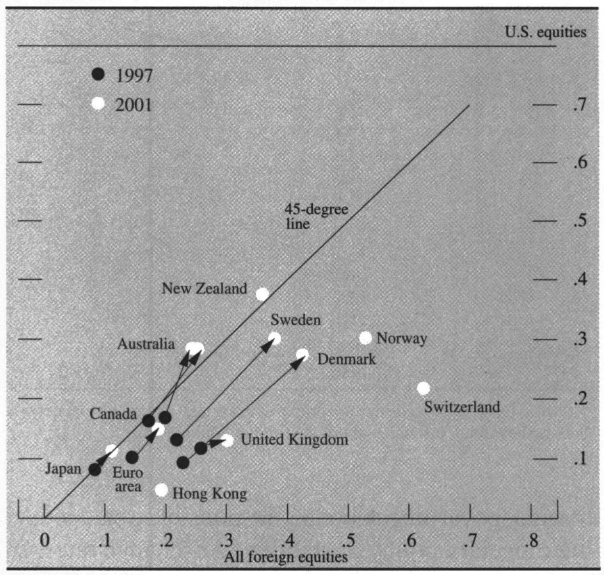
We perform a similar calculation to determine whether a country's total holdings of foreign securities are consistent with the size of foreign markets, where the foreign market for each country is defined as the global market excluding that country's domestic securities:

$$\text{Portfolio weight of foreign securities for country X} = \frac{\dfrac{\text{X's foreign holdings}}{\text{X's total holdings}}}{\dfrac{\text{size of foreign market}}{\text{size of global market}}}$$

In this case, the weight can also be thought of as a measure of "home bias," as it will be 1 if the share of foreign assets in a country's portfolio equals the share of foreign assets in the global market. A value of less than 1 implies an underweight in foreign securities and a corresponding overweight in domestic securities—that is, home bias.

We can visually portray these portfolio weights for equities and, for countries for which we have observations in both 1997 and 2001, the direction of movement of the weights (chart 5). The horizontal axis is the weight of all foreign equities, and the vertical axis

5. Portfolio weights of U.S. equities and of all foreign equities for selected countries, December 31, 1997 and 2001



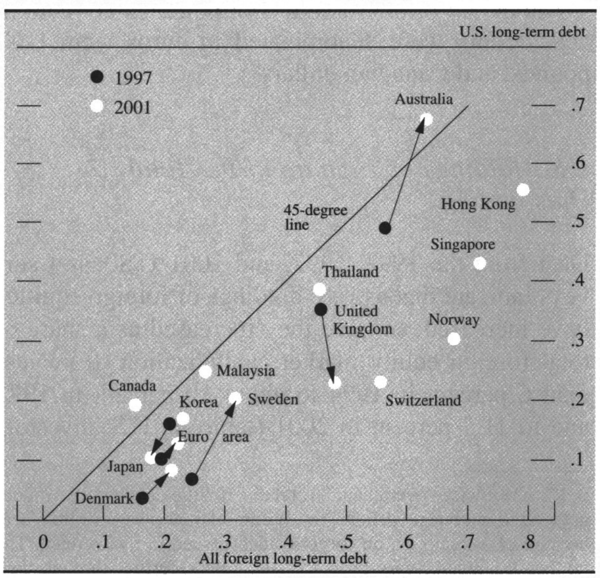
NOTE. The euro area is a weighted average of countries in the euro area for which we can construct portfolio weights in both 1997 and 2001: Austria, Belgium, Finland, France, Italy, the Netherlands, and Spain. Foreign securities for the euro area are defined as holdings reported in the Coordinated Portfolio Investment Survey for each country excluding securities of other countries in the euro area. For calculation of the weights and discussion of the data in relation to the 45-degree line, see text.

is the weight of U.S. equities. For example, the dot for Hong Kong indicates a considerable underweight in total foreign equities in 2001 and an even greater underweight in U.S. equities.

For countries with observations in both 1997 and 2001, the arrows show the direction of movement. A vertical movement would indicate that although a country kept the total foreign share of its equity portfolio unchanged between 1997 and 2001, U.S. equities gained at the expense of other foreign equities. A movement along the 45-degree line would indicate a balanced expansion of U.S. and foreign equities relative to the portfolio allocation based on market capitalization. The arrows indicate that all countries for which we have 1997 data increased their international diversification into both U.S. and total foreign equities. The increases were notable for Australia, Canada, Denmark, and Sweden and were smaller for countries with fairly deep domestic capital markets (the euro area, Japan, and the United Kingdom).

We also show the portfolio weights and movements in U.S. and all foreign long-term debt for the same countries, with the addition of four Asian countries that were important holders of U.S. long-term debt in 2001 (chart 6). The portfolio weights of U.S. long-term debt increased for several countries, but the results were less uniform than those for equities. For the United Kingdom and Japan, the weight of U.S. long-term debt decreased a bit between 1997 and 2001 despite an increase in actual holdings of U.S. long-term debt over this period.

6. Portfolio weights of U.S. long-term debt and of all foreign long-term debt for selected countries, December 31, 1997 and 2001



NOTE. See note to chart 5.

In sum, greater international diversification appears to have been associated with an increased willingness to hold U.S. equities, but it is difficult to draw a conclusion about any change in the appetite for holding U.S. long-term debt. The preponderance of dots below the 45-degree line does indicate, however, that most of these countries are more underweight in U.S. assets than in foreign assets in general.[6]

Recently researchers have pointed out that the ICAPM applies only to investors who purchase and hold freely traded securities in the global market.[7] To compare actual portfolio shares with the ICAPM distribution, the equity market shares portrayed in chart 4 should be adjusted for differences in "float" in various countries. "Float" refers to the fraction of each country's equity that is freely traded. It excludes equities that are closely held and thus unlikely to be offered for sale. It also excludes equity that is subject to foreign ownership restrictions. Making such an adjustment increases the U.S. share of the global equity market in 2001 to 58 percent.[8] Adjusted for float, the relative underweight in U.S. equities displayed for the countries shown in chart 5 would be somewhat more pronounced.[9]

U.S. Holdings of Foreign Securities

The most recent survey results available for U.S. holdings of foreign securities are as of year-end 2001. The survey measure of U.S. holdings of foreign securities was $2.3 trillion, of which $1,613 billion was

6. For a recent discussion of the underweight position of U.S. equities in foreign portfolios, see Carol C. Bertaut and Linda S. Kole, "What Makes Investors Over- or Underweight? Explaining International Appetites for Foreign Equities" (Board of Governors of the Federal Reserve System, January 2004).

7. See Magnus Dalquist, Lee Pinkowitz, René Stultz, and Rohan Williamson, "Corporate Governance and the Home Bias," *Journal of Financial and Quantitative Analysis*, vol. 38 (March 2003), pp. 87–110.

8. Estimates from Morgan Stanley Capital International (MSCI) for June 2000 indicate a float of 92 percent for the U.S. and U.K. equity markets but one of only 80 percent on average for the euro-area market and one of 65 percent for the Japanese market. See "MSCI Consultation Paper on Free Float-Adjusting Constituent Weights and Increasing the Target Market Representation in Its Indices" (MSCI, September 17, 2000), available at www.msci.com/provisional/archives/ConsultationPaper.pdf.

9. Because of the prevalence of securities in the U.S. economy, however, the ICAPM distribution may overstate the relative importance that foreign investors wish to give U.S. securities. For example, although the ICAPM gives the United States roughly a 50 percent weight based on financial market size and a 58 percent weight based on float-adjusted market size, a distribution based on relative GDPs would give the United States a weight of roughly one-third.

equity, $502 billion was long-term debt, and $147 billion was short-term debt. The United Kingdom, which was by far the first choice of U.S. international investors at the end of 2001, attracted more than 22 percent of all U.S. investment in foreign securities; it was followed in popularity by Japan and Canada (chart 7). In the preceding survey, at year-end 1997, the United Kingdom and Japan had also attracted the highest and second-highest levels, respectively, of U.S. investment; the only other U.S. asset survey showed that as of March 1994 Japan had attracted the greatest U.S. holdings, followed by the United Kingdom.[10]

It is perhaps surprising that Bermuda, a country with a population of about 65,000 and a GDP of about $2 billion, attracted $124 billion in U.S. investment. The size of the U.S. investment primarily reflects the fact that several large institutions have changed their country of incorporation from the United States to Bermuda, transforming U.S. holdings of U.S. securities into U.S. holdings of Bermudan securities. Bermuda's situation highlights an important fact about the measurement of cross-border securities holdings: Securities are attributed to countries on the basis of the country in which a company is incorporated or otherwise legally established, not the country of the company's center of economic activity.[11]

Other unusual patterns are also worth highlighting. Data on U.S. holdings of Swiss securities show $76 billion invested in Swiss equities and only $1 billion invested in Swiss debt. This finding reflects the fact that Swiss firms and Swiss governmental organizations have issued relatively little debt, whereas the Swiss equity market was the world's ninth largest at the end of 2001.[12] A high percentage of short-term debt holdings (those with an original maturity of one year or less) is attributed to the United Kingdom, a result, perhaps, of the tendency of internationally active financial firms to issue short-term debt through their U.K. offices. Further, the level of U.S. investment in Canadian long-term debt securities is unusually high: The $105 billion figure represents more than 20 percent of all U.S. holdings of foreign long-term debt securities.

Whereas the countries of residence of foreign holders of U.S. securities are difficult to determine, the countries of origin of foreign securities held by U.S. residents are relatively easy to determine and should be completely accurate. Precise country attribution of foreign securities is possible because the surveys collect data on each security held by U.S. owners, and establishing the country of the issuer of foreign securities is typically a straightforward process.

U.S. Holdings, by Currency

Both the 1997 and 2001 asset surveys show that U.S. investors had a strong preference for foreign debt securities denominated in U.S. dollars; the share of U.S.-dollar-denominated long-term securities increased from 58 percent in 1997 to 67 percent in 2001 (table 1). The preference for U.S.-dollar-denominated foreign debt was even stronger in short-term securities: In the 2001 survey, 84 percent of such holdings were denominated in U.S. dollars.

Almost all of the foreign debt holdings not held in U.S. dollars were denominated in euros, yen, U.K. pounds, and Canadian dollars.

U.S. Holdings as a Share of the Total Outstanding

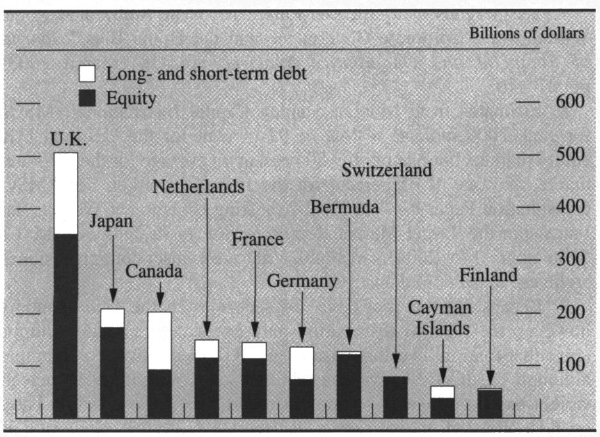
Data from the 1994, 1997, and 2001 U.S. asset surveys indicate that as U.S. holdings of foreign equities have increased, so have they increased as a share of total foreign equity market capitalization: from less than 6 percent in 1994 to about 10 percent in 1997 and to 11.5 percent in 2001 (table 2). U.S. investors

10. For findings from the 2001 survey, see www.treas.gov/tic/fpis.html.

11. This practice is followed to be consistent with international guidelines on the measurement of balance of payments.

12. The Swiss government has relatively little debt because it does not tend to run budget deficits. Swiss corporations also have little debt because of a stamp tax on corporate debt issued in Switzerland. The tax has prompted Swiss firms to issue debt securities through their foreign affiliates.

7. U.S. holdings of foreign securities, by selected country of issuer, December 31, 2001



NOTE. U.S. holdings of all other foreign securities total $600 billion.

1. Distribution of U.S. holdings of foreign debt securities, by currency of denomination, December 31, 1997 and 2001
Billions of dollars except as noted

Currency	1997		2001			
	Long-term		Long-term		Short-term	
	Amount	Percent	Amount	Percent	Amount	Percent
U.S. dollar	315	58	334	67	123	84
Euro[1]	75	14	90	18	7	5
Yen	30	5	25	5	12	8
Canadian dollar	42	8	22	4	1	1
U.K. pound	26	5	16	3	3	2
Other	39	7	15	3	1	0
Unknown	20	4	*	0	*	0
Total	**547**	**100**	**502**	**100**	**147**	**100**

NOTE. Here and in the following tables, components may not sum to totals because of rounding.

1. Amount for 1997 is denominated in the former national currencies of countries now in the euro area (for those countries, see general note to chart 4).

* Less than $500 million.

SOURCE. U.S. Department of the Treasury, *Report on U.S. Holdings of Foreign Securities,* Foreign Portfolio Investment Benchmark Surveys (May 2003), p. 11 (www.treas.gov/tic/shc2001r.pdf).

notably increased their shares of the equity markets in the United Kingdom, Japan, and other Asian countries, but they held a relatively constant fraction of the Canadian equity market. Although they held progressively larger dollar amounts of equities of countries in the euro area, the share of the euro-area equity market that these holdings represented declined somewhat in 2001 after increasing from 1994 to 1997. To some extent, differences in the fractions of foreign equity markets held by U.S. investors reflect differences in the float of these countries. Data using float-adjusted estimates of market capitalization show that in 2001 U.S. investors held about 17 percent of the U.K. equity market, about 16 percent of the euro-area market, and a bit under 12 percent of the Japanese market.[13]

In contrast to their investment pattern in foreign equities, U.S. investors have continued to hold a relatively small fraction of foreign long-term debt securities (table 3). U.S. investors continue to hold a notably larger share of the Canadian long-term debt market than they do of other foreign markets. As with holdings of foreign equities, the U.S. share of the U.K. long-term debt market in 2001 was larger than that of the euro-area market for long-term debt and larger still than that of the Japanese long-term debt market.

The rise and fall of holdings shown in table 3 for "other Asia" and "other" countries (the latter of which include Latin America) from 1994 to 2001 may reflect a change in the perceived risk-adjusted rate of return on emerging-market debt over the period. Some research indicates that as U.S. investors moved out of emerging-market debt over the 1997–2001 period, they did so to a greater degree in countries (such as some in Southeast Asia and Latin

13. Alan Ahearne, William L. Griever, and Francis E. Warnock, "Information Costs and Home Bias: An Analysis of U.S. Holdings of Foreign Equities," *Journal of International Economics* (forthcoming), find little evidence that direct barriers to investment explain U.S. investors' portfolios; rather, information costs associated with foreign companies, regulatory and accounting environments, and financial information may play a role. Using data from the U.S. asset surveys of 1994 and 1997, they find that U.S. investors are significantly more likely to hold equities of foreign firms that have reduced such costs by publicly listing securities in the United States.

2. U.S. holdings of foreign equities: Market value and percentage of the foreign equity market, by selected country of origin and for all foreign countries, 1994, 1997, and 2001
Billions of dollars except as noted

Country or region	March 1994		December 1997		December 2001	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
United Kingdom	100	8.2	218	10.9	350	15.8
Euro area	130	7.4	376	12.5	462	10.7
Canada	40	12.6	71	12.5	90	12.8
Japan	99	2.6	136	6.2	171	7.6
Other Asia	51	3.4	75	5.3	131	6.3
Other	147	9.4	332	12.7	410	16.9
All	**567**	**5.6**	**1,208**	**10.2**	**1,613**	**11.5**

NOTE. For the size of the foreign equity market, see source note to chart 4. For countries in the euro area and in other Asia, see general note to chart 4.

3. U.S. holdings of foreign long-term debt: Market value and percentage of the foreign long-term debt market, by selected country of origin and for all foreign countries, 1994, 1997, and 2001

Billions of dollars except as noted

Country or region	March 1994		December 1997		December 2001	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
United Kingdom	20	3.7	54	6.3	72	5.5
Euro area	87	1.9	116	2.0	137	2.0
Canada	69	14.7	107	18.2	105	16.4
Japan	32	.8	30	.8	25	.5
Other Asia	9	2.2	41	5.8	21	1.5
Other	93	5.0	200	8.9	143	5.5
All	**304**	**2.6**	**547**	**3.9**	**502**	**2.9**

NOTE. For the size of the foreign long-term debt market, see text note 5. For countries in the euro area and in other Asia, see general note to chart 4.

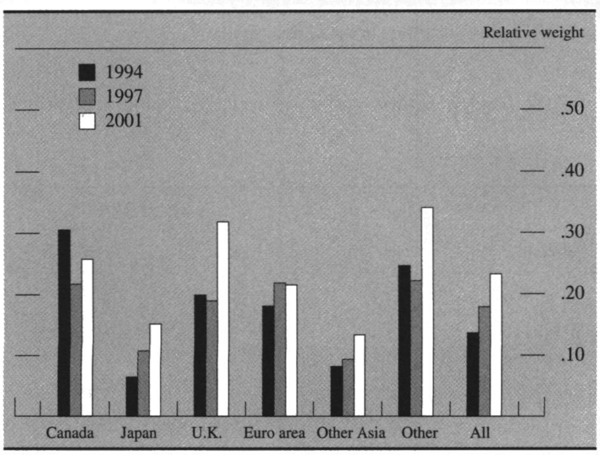
America) with low and declining credit rates and volatile returns.[14]

With the method used above for foreign portfolios, we can measure the relative weights of foreign equities and foreign long-term debt in U.S. portfolios. Although the share of the aggregate U.S. portfolio held in foreign equities rose between 1994 and 2001, it remained relatively underweight in foreign equities (chart 8, bars labeled "All"). The increase in share of all foreign equities was associated with increases in holdings of Japanese, U.K., euro-area, and other Asian equities. In contrast, the U.S. portfolio weight of Canadian equities decreased a bit, from 0.30 to 0.26, over this period.

14. John D. Burger and Francis E. Warnock, "Diversification, Original Sin, and International Bond Portfolios," International Finance Discussion Papers 755 (Board of Governors of the Federal Reserve System, January 2003).

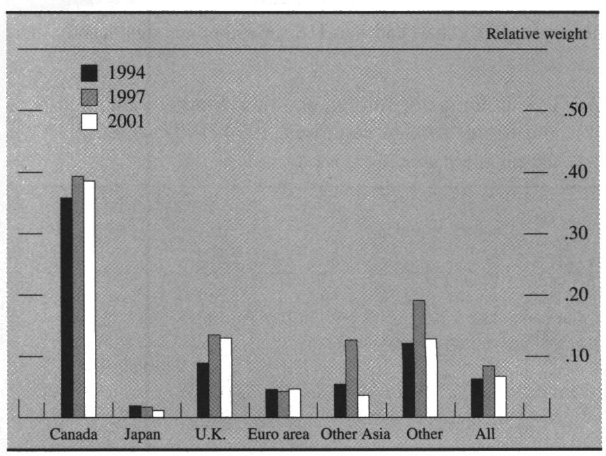
U.S. investors remain notably more underweight in holdings of foreign long-term debt than in holdings of foreign equities. The relative weight of all foreign long-term debt holdings in the United States barely increased, from 0.06 to 0.08, between 1994 and 1997 and then slipped back to 0.07 by 2001 (chart 9, bars labeled "All"). Relative to their holdings of all foreign long-term debt securities, U.S. investors are considerably less underweight in holdings of Canadian securities and slightly less underweight in holdings of U.K. securities. The limited participation of U.S. investors in foreign long-term debt markets may partly reflect their apparent preference for securities denominated in U.S. dollars. Indeed, this preference may account for the larger U.S. portfolio weight of Canadian long-term debt: In 2001, roughly two-thirds of Canadian international long-term debt was denominated in U.S. dollars, whereas only 8 percent of all international long-term debt was

8. Relative weight of foreign equities in U.S. equity portfolio, by selected country of origin and for all foreign countries, 1994, 1997, and 2001



NOTE. For calculation of relative weights, see text. For countries in the euro area and in other Asia, see note to chart 4.

9. Relative weight of foreign long-term debt in U.S. long-term debt portfolio, by selected country of origin and for all foreign countries, 1994, 1997, and 2001



NOTE. For calculation of relative weights, see text. For countries in the euro area and in other Asia, see note to chart 4.

dollar-denominated.[15] Another possible reason for the relatively low measure of U.S. holdings of foreign long-term debt is that such holdings may not fully account for U.S. holdings of foreign bearer bonds, which are difficult to measure.

Characteristics and Levels of U.S. and Foreign Holdings

The composition of U.S. holdings of foreign securities is quite different from that of foreign holdings of U.S. securities. U.S. investors have primarily held foreign equities, and their preference for equities has increased over the period during which the United States has conducted asset surveys. If we consider only U.S. holdings of foreign long-term securities (the 2001 survey was the first to measure holdings of short-term securities), we find that as of the end of March 1994, 65 percent of U.S. foreign holdings were equity securities; the share increased to 69 percent as of year-end 1997 and to 76 percent as of year-end 2001. In sharp contrast, foreign investors primarily hold U.S. debt securities. Again considering only long-term securities, we see that during the period covered by U.S. surveys of foreign holdings (1974–2002), the proportion of equities in foreign holdings was 36 percent in December 1974, varied in the ensuing years between 31 percent and 48 percent, and was 37 percent in June 2002. Much of this fluctuation appears to be due to booms and busts in the U.S. equity markets rather than to a change in the pattern of foreign investment flows.

Another difference between U.S. and foreign investors is the relative participation of private and official investors. Foreign official investors accounted for a significant though declining share of foreign holdings of U.S. securities over the period, representing 41 percent of all foreign holdings in 1974 and 20 percent in June 2002. In contrast, private investors account for almost all U.S. holdings of foreign long-term securities.

The holdings of foreign official institutions, composed primarily of debt securities, help to explain the difference in the share of equities in U.S. and foreign

15. Data are from BIS international debt statistics, available at www.bis.org/statistics/secstats.htm. The BIS definition of international long-term debt securities differs from the survey definition of foreign long-term debt securities in that, in addition to all securities issued in foreign countries, the BIS definition includes securities issued domestically by resident firms that are denominated in foreign currencies or that are specifically targeted at nonresident investors. See Bank for International Settlements, "Guide to the International Financial Statistics," *BIS Papers*, no. 14, pp. 13–14, available at www.bis.org/publ/bispap14.pdf.

4. Market value of U.S. holdings of foreign long-term securities and of foreign holdings of U.S. long-term securities, selected dates, 1994–2003

Billions of dollars except as noted

Month and year	U.S. holdings	Foreign holdings	Ratio of U.S. holdings to foreign holdings	Net foreign holdings
Dec. 1994[1] ...	949[2]	1,244	.76	295
Dec. 1997 ...	1,755	2,632[2]	.67	877
Mar. 2000 ...	2,490[2]	3,558	.70	1,068
Dec. 2001 ...	2,115	3,970[2]	.53	1,855
June 2002 ...	2,050[2]	3,926	.52	1,876
Dec. 2002 ...	1,847[2]	4,149[2]	.45	2,302
Nov. 2003 ...	1,804[2]	4,554[2]	.40	2,750

1. December 1994 was chosen as the start date because the first survey of U.S. holdings of foreign securities was conducted in March 1994 (thus, estimates for earlier dates are unreliable), and a survey of foreign holdings of U.S. securities was conducted as of year-end 1994.

2. Estimate. Year-end estimates are from the Department of Commerce, Bureau of Economic Analysis; all others are from the Board of Governors of the Federal Reserve System. For each date except December 2002 and November 2003, one position was measured by an asset or liabilities survey and the other by adding transactions adjusted for changes in prices and exchange rates to the amounts measured by the last such survey. For December 2002 and November 2003, both positions are estimated.

Source. U.S. Treasury, *Report on U.S. Holdings of Foreign Securities*, various years.

cross-border portfolios. But even if these holdings are excluded, the share of foreign equities in U.S. investors' cross-border portfolios is still well above that of U.S. equities in the portfolios of foreign investors.

The market value of foreign holdings of U.S. long-term securities has long exceeded that of U.S. holdings of foreign long-term securities (table 4). From December 1994 to November 2003 the difference widened, as the ratio of U.S. holdings to foreign holdings declined from 0.76 to 0.40.

Efforts to Improve the Measurement of Cross-Border Investment in Securities

As cross-border security flows have become increasingly important, efforts to improve the measurement of these data have intensified. These efforts took on greater urgency in the aftermath of the financial crises of 1997–98, when the lack of relevant and comprehensive data on the external debt and reserve assets of many emerging-market countries was widely perceived as contributing not only to the severity of the crises and but also to the absence of forewarning.

These efforts to improve the quality of data have mainly occurred under the auspices of the International Monetary Fund (IMF). The IMF has also sought to have these data produced within a consistent framework and in a more transparent manner. These efforts have prompted significant changes in the U.S. system for collecting data on cross-border securities activity. For example, surveys of portfolio assets and liabilities are now conducted annually, and the U.S. measurement system is increasingly becoming part of an integrated worldwide system.

Recent Efforts to Improve Asset Data

Internationally coordinated efforts to improve data on assets (holdings of foreign securities by domestic residents) preceded serious efforts to improve liabilities data. IMF-led studies of the accuracy of cross-border financial information concluded that, for securities, measures of worldwide cross-border assets were significantly less than corresponding measures of liabilities despite the fact that these measures should be equal.[16] To help address this apparent undercount of assets, the IMF organized a Coordinated Portfolio Investment Survey (CPIS) to be conducted as of year-end 1997. Twenty-nine countries participated in the survey, which increased the worldwide level of measured holdings of portfolio assets from $6.9 trillion to $7.7 trillion. The perceived success of this effort and the desire for further improvements led to a second coordinated survey as of year-end 2001 and to an agreement to conduct such surveys annually.[17] For the 2001 survey, the number of participating countries more than doubled, to sixty-seven, and the level of measured assets also rose sharply, to $12.6 trillion.

Despite the improvements in measurement arising from the surveys, however, worldwide measured assets have remained well below worldwide measured liabilities. Data compiled by the IMF show that the percentage difference between measured assets and measured liabilities is dropping but is still quite large, and the absolute difference is growing (table 5). Further, these figures probably understate the discrepancy, as the IMF believes that worldwide liabilities may be significantly underestimated because of a variety of measurement problems.[18]

At least four factors are believed to contribute to the undercount of assets. First, some major investing countries either do not conduct asset surveys or conduct surveys whose quality could be improved. Second, asset surveys measure holdings of foreign securities by domestic residents and tend to collect data from large, institutional units. Thus, foreign holdings not owned by or entrusted to large domestic institutions will typically be missed. In total, such holdings may be sizable. (Below we discuss a partial solution to this problem.) The third problem is bearer bonds. Because of a dearth of information about the owners of these securities, the amounts held by residents of each country must be estimated and may well be undercounted. Finally, investors may wish to obscure their asset holdings in a variety of ways—which may include holding bearer bonds—to avoid paying taxes.

Although the first of these four points is also true of the measurement of liabilities, the others are unique to the measurement of assets. Whereas liabilities consist of foreign holdings of domestic securities—which, because they are registered with public authorities, are typically easy to identify—assets are often held by individual investors whose activities are unknown to data compilers. Bearer bonds issued by domestic residents are likewise easily identified and counted as liabilities (though the foreign-held amounts must be estimated), but holdings of foreign bearer bonds by domestic residents are extremely difficult to identify. And although investors may hide their asset holdings to avoid paying taxes, issuers of domestic securities can usually

5. Estimates of worldwide holdings of securities, December 31, 1997 and 2001

Trillions of dollars except as noted

Year	Assets	Liabilities	Liabilities minus assets	
			Amount	Percent of liabilities
1997	7.7	9.3	1.6	18
2001	12.6	15.0	2.4	16

SOURCE. International Monetary Fund, Statistics Department.

16. See International Monetary Fund, *Final Report of the Working Party on Statistical Discrepancies in the World Current Account Balance* (1987) (Estava Report) and *Final Report of the Working Party on the Measurement of International Capital Flows* (1992) (Godeaux Report).

17. The IMF consolidates the data from these surveys and posts them, along with analytic tables, on its web site (see www.imf.org/external/np/sta/pi/cpis.htm). Also available at the site are explanations of the survey techniques of participating countries and directions for obtaining additional information.

18. In its analysis of the difference between estimated assets and estimated liabilities in the worldwide portfolio as of year-end 2001, the IMF stated:

> The estimate for portfolio investment liabilities outstanding is more likely to be underestimated than overestimated because (a) some major financial centers do not measure their portfolio investment liabilities; (b) there is a tendency for portfolio investment liabilities (in country International Investment Position statements) to be reported at nominal values rather than at current market prices; and (c) part of the estimate is derived from the summing of flows, which, over the long term, for equities, in particular, tend to underestimate the current market value. The net result is that the under-coverage of assets in the CPIS may be significantly larger than $2.4 trillion.

See www.imf.org/external/np/sta/pi/globaldi.htm.

treat interest and dividend payments as tax deductions. For these reasons, the overall level of measured liabilities is probably more accurate than that of measured assets, but the geographic attribution of measured assets is superior to that of measured liabilities.

Recent Efforts to Improve Liabilities Data

For many countries, foreign holdings of securities are a primary component of their external debt positions. IMF-led efforts to improve these data resulted, first, in an expanded system for reporting reserve asset positions and, later, in a comprehensive plan for measuring external debt. Both reporting systems have been integrated into an existing IMF system known as the Special Data Dissemination Standard, or SDDS.[19] To meet the requirements of the external debt reporting system, the United States has begun to conduct annual surveys of foreign holdings of U.S. securities and has made other system modifications. The external debt reporting system began operating as of September 30, 2003.

An important aspect of the SDDS is that the IMF, with country approval, conducts periodic in-country reviews of the methods and procedures that each country uses to compile data.[20] These reviews cover areas such as methodological soundness, data accuracy and reliability, the independence and integrity of compilers, the strength of the legal framework authorizing data collections, and, in some cases, the views of private-sector data users on the overall reliability and usefulness of each country's data. The IMF produces reports of findings and, again with country approval, publishes the reports on its web site. The IMF's site does not indicate instances in which a country chose not to have the report of findings published.

Problem Areas and Improvement Initiatives

Most avenues currently under consideration to improve cross-border securities data involve internationally coordinated efforts, as countries face both practical and theoretical limits to what they can do with only domestic sources of information.

As noted above, a gap in the current international measurement system involves holdings of foreign securities entrusted to nonresident institutions for safekeeping. For example, a resident of country A may buy a security issued by a resident of country B and entrust the safekeeping of this security to a bank in country B. If a large domestic institution owns these holdings, then they will probably be captured by country A's portfolio asset surveys, as these surveys typically collect information from large domestic end-investors, or large domestic custodians, or both. But if smaller institutional units or private individuals own these holdings, then they will probably not be reported on country A's asset surveys. However, they will in all likelihood be captured on the liabilities survey of country B, creating an asymmetry between measured assets and measured liabilities.

Further, if the resident of country A instead entrusts the security to a custodian bank in country C, then these holdings will most likely be recorded by country B as liabilities vis-à-vis country C. These holdings will not be included in the asset survey of country C, as asset surveys at present measure only holdings of foreign securities by *domestic* residents and exclude holdings of foreign securities by *foreign* residents. To address this problem, counterparty countries must collect the relevant data and exchange this information with authorities in investor countries. In many cases such reporting would require counterparty countries to enhance their reporting systems. Steps to rectify this gap are still in the early stages, but concerned parties are increasingly recognizing the need to address the issue.

Another problem mentioned above is the difficulty of obtaining accurate geographic attribution of liabilities data. Because countries can accurately determine the geography of their asset holdings but not that of their liabilities, the obvious solution is to use asset data from counterparty countries to determine the geography of each country's foreign liabilities. However, such comparisons are best done when countries conduct simultaneous asset and liabilities surveys and when countries have sufficient faith in counterparty asset surveys to feel comfortable using these data in place of their own measurements of liabilities. Although many countries are improving the quality of their asset surveys, the U.S. liabilities surveys are not synchronized with them. The coordinated asset surveys are conducted as of December 31, whereas the U.S. liabilities surveys are conducted as of June 30, a disjunction that somewhat reduces the

19. For more information, see dsbb.imf.org/Applications/web/sddshome.

20. The IMF review system is called Reports on the Observance of Standards and Codes, or ROSCs (www.imf.org/external/np/rosc/rosc.asp). Reviews are conducted for countries subscribing to the SDDS and to the less rigorous General Data Dissemination System (GDDS).

usefulness of counterparty data for the United States.[21]

SUMMARY

Now that asset and liabilities surveys are conducted annually, U.S. data on cross-border securities holdings should be on more solid footing. Survey data are more timely and are becoming increasingly reliable as survey reporters gain experience in providing these data. However, problems with the geographic attribution of liabilities data will remain unresolved at least for the short term.

Many other countries, urged on by organizations such as the IMF, have notably improved the quality and transparency of their measurement systems. Data collectors will likely make further significant improvements in the next few years, but problems such as the worldwide undercount of assets are far from being resolved.

APPENDIX: COMPARING U.S. AND FOREIGN MEASUREMENT OF HOLDINGS OF U.S. SECURITIES

To further assess the extent to which foreign countries own U.S. securities, one may compare the results of U.S. liabilities surveys to the foreign holdings of U.S. securities reported in the 1997 and 2001 Coordinated Investment Portfolio Surveys (CPIS), organized by the IMF.[22] The country asset surveys show holdings of U.S. securities as well as each country's holdings of all foreign securities, so the data are particularly useful for comparing a given country's exposure to U.S. securities with its foreign exposure more generally. The asset surveys may also provide more accurate information on holdings of U.S. securities by nonresident custodians in a given country. For example, the U.S. liabilities surveys may overestimate holdings in international financial centers, where such custodians frequently are located, and consequently these surveys may underestimate holdings for the countries of the actual owners of these securities. To the extent that the CPIS asset surveys are able to properly allocate holdings by nonresident custodians, they may be able to give a more accurate picture of the country distribution of foreign holdings of U.S. securities.

On the other hand, the set of countries that conducted asset surveys is not as large as the set of countries to which we can attribute ownership in the U.S. liabilities surveys, so the universe of foreign holders will underestimate total holdings of U.S. securities. For example, China, a major holder from our liabilities surveys, has not conducted asset surveys. Another important difference for the 2001 asset surveys is that the publicly released country-level data from these surveys exclude holdings of foreign securities held as foreign exchange reserves.[23] Such liabilities to foreigners are included in the U.S. liabilities surveys.[24] Differences in survey techniques may also result in differences in reported holdings between the two types of surveys; for example, not all countries conduct security-level surveys, the technique generally believed to be the most accurate. Finally, the difference in timing between the December 2001 assets surveys and the June 2002 liabilities survey can result in differences in reported holdings to the extent that there were net purchases or sales of U.S. securities and changes in the market value of the securities over the six-month period.

For U.S. equities, the change in market value during this time is likely to be especially important, as broad U.S. equity indexes fell about 14 percent in the first half of 2002. For foreign holdings of U.S. long-term debt, the more significant difference is likely to come from securities transactions, as foreign residents purchased a net total of about $230 billion in U.S. long-term debt securities over the period.

To construct the foreign portfolios and shares held in U.S. assets shown in charts 5 and 6, we use information from the CPIS asset surveys and from the U.S. liabilities surveys. For holdings of all foreign equities and of U.S. equities, we use the reported amounts in the CPIS surveys. For holdings of long-term debt securities, we augment the total reported foreign holdings of long-term securities with IMF estimates of total reserve holdings to construct the

21. Many U.S. survey reporters were concerned that conducting both surveys as of year-end would place an undue burden on their resources. In response, the United States staggered the schedule for collecting these data.

22. For availability of reports, see text note 17.

23. For 2001, securities held as reserves are reported separately in the IMF's Survey of Geographical Distribution of Securities Held as Foreign Exchange Reserves (SEFER) and not on the CPIS. In the 1997 survey, some countries reported reserve holdings in their CPIS survey, while others reported reserves separately on the SEFER. For details on coverage of the CPIS and the SEFER, see "Portfolio Investment: CPIS Data: Notes and Definitions," available at www.imf.org/external/np/sta/pi/notes.htm.

24. The CPIS collected *reserve asset* holdings separately from *other* holdings. The U.S. liabilities surveys measure *official* holdings separately from *other* holdings. Although foreign official investors are primarily specific organizations in each country that would be expected to hold their country's reserve assets, the definition of official holdings is broader than that of reserve assets. Published data from the U.S. liabilities surveys do not show official holdings separately from other holdings by country, although we are able to identify these holdings for our analyses.

total foreign portfolio in each country. For holdings of long-term U.S. securities, we compare the reported CPIS amounts with the amounts in the U.S. liabilities survey, adjusted for net securities purchases during the six-month difference in reporting periods. For countries whose reported CPIS amounts are greater than the U.S. liabilities numbers, we use the CPIS amounts. Although these figures may be underestimates of true holdings of U.S. long-term securities for these countries, as they exclude reserve holdings in U.S. securities, they suggest that our liabilities survey produces an even greater underestimate of nonreserve holdings for these countries. For countries for which the U.S. liabilities survey estimates of holdings are greater, we use the U.S. liabilities amounts. Overall, we find that our liabilities survey estimates of foreign holdings of U.S. securities are larger than the total reported on the asset surveys. □

Industrial Production and Capacity Utilization: The 2003 Annual Revision

Kimberly Bayard and Norman Morin, of the Board's Division of Research and Statistics, prepared this article. Vanessa Haleco provided research assistance.

On November 10, 2003, the Board of Governors of the Federal Reserve issued revisions to its index of industrial production (IP) and the related measures of capacity and capacity utilization for the period from January 1972 to September 2003. Overall, the changes are small, and most of them appear after 2000 (chart 1).[1] The levels, but not the rates of change, for years before 1972 were also revised.

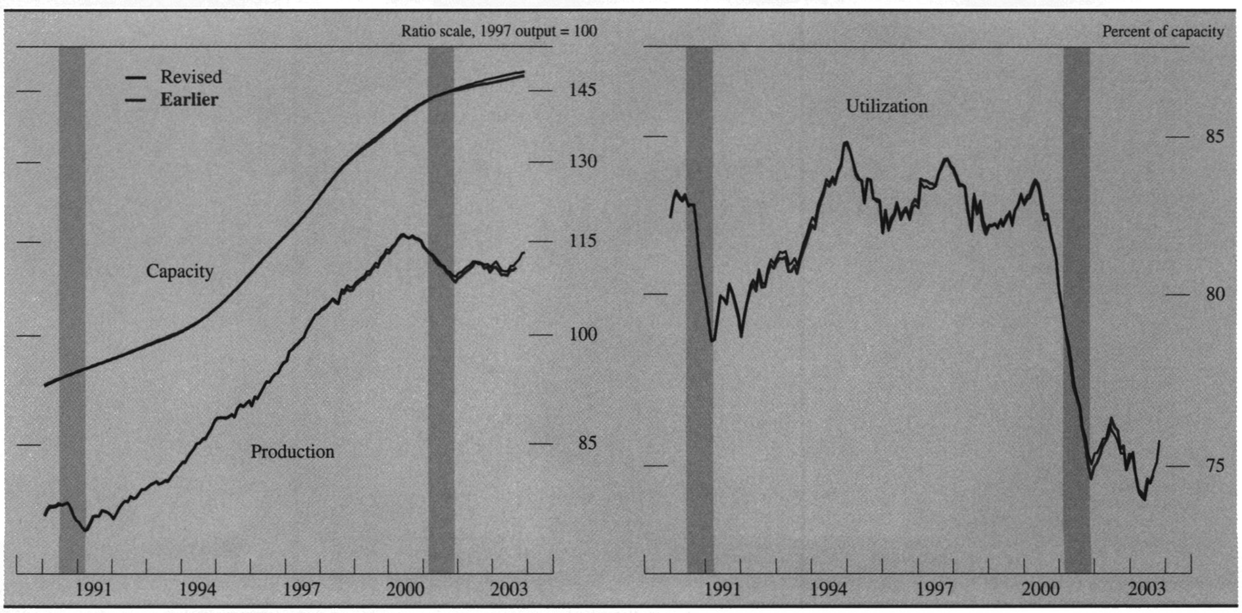
NOTE. Charles Gilbert directed the 2003 revision and, with David Byrne, William Cleveland, Elizabeth Kiser, Paul Lengermann, and Dixon Tranum, prepared the revised estimates of industrial production. Norman Morin, John Stevens, and Daniel Vine prepared the revised estimates of capacity and capacity utilization.

1. Data referred to in the text and shown in table 1 are based on IP and utilization rates as published on December 16, 2003. Statements about previously reported estimates refer to data published on October 16, 2003.

Measured from fourth quarter to fourth quarter, industrial output is now reported to have increased at a slower rate in 2000 and to have contracted a bit more slowly in 2001 than reported earlier (table 1). The changes to total industrial production in other years are slight. The revision still places the most recent peak in total IP in June 2000 and the corresponding trough in December 2001; the 6¼ percent peak-to-trough decline is about ½ percentage point less than the previous estimate. After the trough, the total index showed gains in the first half of 2002, only to trend down again until mid-2003 and then to head up.

The revised measures of overall capacity are only minimally different from earlier estimates. The rate of increase of industrial capacity was revised up, on average, 0.1 percentage point per year over 1999–2002. The general contour of the series shows a rapid acceleration during the second half of the 1990s and a slowing since then. The rate of industrial capacity

1. Total industrial production and capacity utilization



NOTE. The shaded areas are periods of business recession as defined by the National Bureau of Economic Research.

The lines that reflect "revised" figures correspond to the data as published on December 16, 2003. The lines that correspond to "earlier" figures reflect the data as published prior to the November 10, 2003, annual revision. The "earlier" line for capacity extends the entire date range because the capacity indexes are based on annual projections that are converted to a monthly basis.

utilization remained at a low level in the third quarter of 2003—the last full quarter of data—and was unchanged by the revision; at 74.6 percent, the rate is 4 percentage points below the trough of the 1990–91 recession and 6.7 percentage points below its 1972–2002 average.[2] The operating rates in manufacturing during 2002 and 2003 were also close to previous estimates. Capacity utilization at mines was slightly lower in 2002 and a bit higher by the third quarter of 2003 than previously reported. The revision found that the utilization rates at utilities during 2001 and 2002 were higher than those reported earlier but that the rates in the third quarter of 2003 were a bit lower than those reported previously.

The statistical revisions to the IP index were derived principally from information in recent annual releases from the U.S. Census Bureau: the revision to the 2000 Annual Survey of Manufactures (ASM), the 2001 ASM, the 2001 Services Annual Survey (for publishing), and selected 2002 Current Industrial Reports. Revised annual data from the U.S. Geological Survey (USGS) on minerals (except fuels) for 2001 and some new data for 2002 were also introduced. Annual data from the U.S. Forest Service were used to generate estimates for logging. Also, the revised monthly production estimates for 2002 and 2003 reflect updated seasonal factors and the inclusion of monthly source data that became available (or were revised) after the closing of the regular four-month reporting window.

Revisions to the capacity indexes and capacity utilization rates were derived principally from the revised production indexes, from the Census Bureau's Survey of Plant Capacity for the fourth quarter of 2002, and from newly available data for 2002 on industrial capacity from the USGS, the Energy Information Agency of the Department of Energy, and other organizations. Also, the relationships used to estimate the current changes in manufacturing capacity were updated from Census data on capital spending by industry for 2001 and from indicators of the rates of change in manufacturers' capital spending in 2002 and 2003.

The revision included a rearrangement of the market groups based on the 1997 input–output tables recently issued by the Bureau of Economic Analysis (BEA). Finally, the revision included updates to the value-added weights used in aggregating individual indexes to the major industry and the market group subtotals and to the index for total industry.

Results of the Revision

For the third quarter of 2003, the revision places the production index at 111.1 percent of output in 1997 and the capacity index at 148.8 percent of output in 1997; both indexes are slightly higher

2. These comparisons use quarterly average data.

1. Revised rates of change in industrial production and capacity and the revised rate of capacity utilization, 1999–2003

Item	2002 proportion	Revised rates of change (percent)					Difference between revised and earlier rates of change (percentage points)				
		1999	2000	2001	2002	2003	1999	2000	2001	2002	2003
Production											
Total industry	100.0	4.9	2.3	−5.2	1.3	.2	.0	−.4	.4	−.1	.3
Manufacturing	84.6	5.5	2.0	−5.6	1.0	.4	.0	−.5	.5	.1	.7
Excluding high-tech industries	79.3	1.8	−1.5	−5.2	−.1	−.8	−.1	−.3	.4	−.5	.3
High-tech industries	5.3	42.4	38.2	−8.4	15.3	20.7	.8	−1.9	1.2	8.2	5.2
Mining and utilities	15.4	1.6	4.0	−3.5	3.0	−1.2	.2	.2	−.1	−.8	−1.8
Capacity											
Total industry	100.0	4.4	4.1	2.3	1.6	1.1	.2	−.2	−.1	.5	.0
Manufacturing	86.4	5.0	4.8	2.2	1.1	1.0	.2	−.1	−.2	.3	.2
Excluding high-tech industries	79.3	2.6	1.2	.4	−.1	−.2	.3	−.3	.0	.0	−.4
High-tech industries	7.2	27.8	42.3	24.9	17.6	11.8	−.7	1.9	1.7	8.9	2.0
Mining and utilities	13.6	.4	1.2	3.1	3.7	2.4	.3	−.5	−.2	−.3	−.3
Capacity utilization (percent)											
Total industry	100.0	82.9	81.4	75.4	75.2	74.6	.0	−.1	.3	−.1	.0
Manufacturing	86.4	81.9	79.6	73.5	73.5	73.2	.0	−.4	.2	.0	.3
Excluding high-tech industries	79.3	81.2	79.0	74.5	74.6	74.2	−.2	−.3	.0	−.4	.0
High-tech industries	7.2	88.3	85.9	62.9	61.7	65.2	2.1	−.2	−.2	−.4	.5
Mining and utilities	13.6	90.2	92.7	86.8	86.2	83.9	.5	1.1	1.1	.7	−.2

NOTE. The revised rates of change for production and capacity are calculated as the percent change in the seasonally adjusted index from the fourth quarter of the previous year to the fourth quarter of the year specified in the column heading. For 2003, the rates for industrial production are calculated from the fourth quarter of 2002 to the third quarter of 2003 and are annualized. The revised rates for capacity utilization refer to the fourth quarter, except in 2003, where they refer to the third quarter.

High-tech industries include the manufacturers of semiconductors and related devices, computers and computer peripherals, and communications equipment.

than reported previously (chart 1). As noted earlier, the utilization rate for total industry—the ratio of IP to capacity—was unchanged for the third quarter of 2003.

Appendix tables A.1 and A.2 report the revised production, capacity, and utilization series for total industry. Appendix table A.3 shows the revised rates of change of industrial production for market and industry groups for the years 1999 through the third quarter of 2003. Appendix table A.4 shows the revised rates of change of industrial production for special aggregates and selected detail for the same time period. Appendix tables A.5, A.6, and A.7 show the revised figures for capacity utilization, capacity, and electric power use. Appendix tables A.3, A.4, A.6, and A.7 also show the difference between the revised and earlier rates of change. Appendix table A.5 also shows the difference between the revised and previous rates of capacity utilization for the final quarter of the year (the third quarter was used for 2003). Appendix table A.8 shows the annual proportions in total IP by market groups and industry groups.

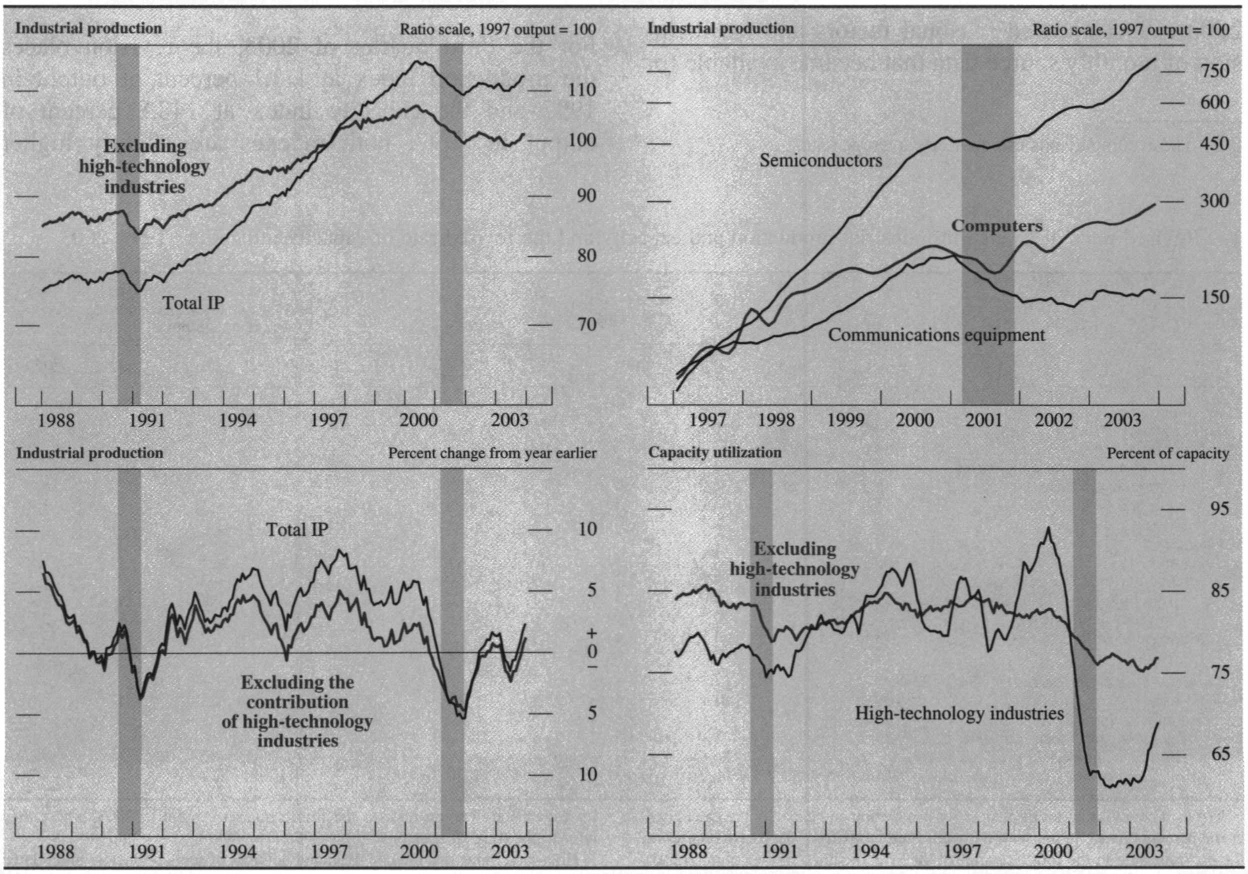
Industrial Production

The revision to industrial output reduced the gain in 2000 as well as the decline in 2001. The cumulative recovery in total IP since the end of 2001 was, on balance, little changed. The somewhat slower increase in IP now shown for 2000 reflects largely the incorporation of recently issued annual Census data. Among the major manufacturing groups, the new data indicated weaker changes in production for a few industries, such as those that produce machinery, computer and electronic products, and nonmetallic mineral products. In 2001, the slightly slower decline in total IP reflects partly an upward revision to the output of aerospace and miscellaneous transportation equipment.

The revision now places the rise in the production of high-technology industries at about 15 percent in 2002 and at 21 percent in 2003, rates notably higher than earlier estimates but still well below the rapid gains recorded in the late 1990s (chart 2).[3] The pro-

3. For 2003, the rates are calculated from the fourth quarter of 2002 to the third quarter of 2003 and are annualized.

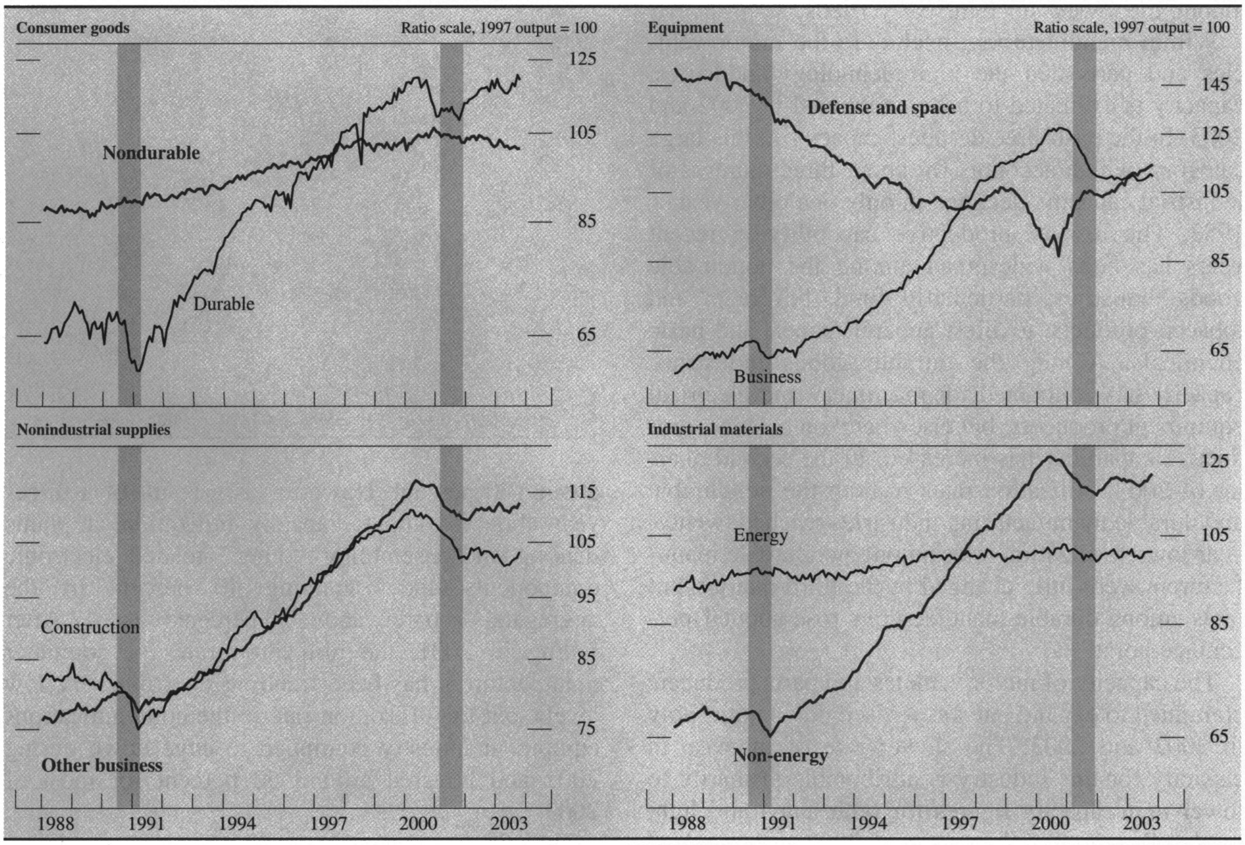
2. High-technology industrial production and capacity utilization



NOTES. The shaded areas are periods of business recession as defined by the National Bureau of Economic Research.

High-technology industries are defined as semiconductors and related electronic components (NAICS 334412–9), computers (NAICS 3341), and communications equipment (NAICS 3342).

3. Industrial production by market groups, 1988–2003



NOTE. The shaded areas are periods of business recession as defined by the National Bureau of Economic Research.

duction of computers and semiconductors picked up again in 2002 and 2003, but the production of communications equipment continued to fall, on balance, throughout 2002 before posting a modest increase in 2003. Relative to earlier estimates, the output of computers and semiconductors increased at a faster rate in 2002, and the decline in communications equipment was not as steep. In 2003, although the gain in the output of computers now appears to have been weaker than previously reported, the output of other high-technology industries expanded more rapidly.

Among the major market groups, the revised production index for consumer goods rose somewhat more slowly in 2002 and was weaker in 2003 than previous reports had suggested; the estimates for earlier years were little changed. The rise in the production of business equipment in 1999 and 2000 is now shown to have been, on balance, a bit less than previously reported and the subsequent contraction in 2001 to have been less steep. On balance, output for the series flattened out in 2002 and 2003 (chart 3). Within the business equipment category, the output of information processing equipment, on balance, has been stronger over 1999–2003 than previously estimated, whereas the production of industrial equipment has been weaker. The production of defense and space equipment is now estimated to have declined more steeply in 1999 and 2000 and to have rebounded more rapidly in 2001 and 2002 than reported earlier. The output of industrial materials is little changed from previous estimates.

Capacity and Capacity Utilization

The revised indexes of capacity and capacity utilization are generally close to the previous estimates. Manufacturing capacity is now estimated to have decelerated a bit more in 2000 and 2001 than previously indicated and to have risen a touch more in 2002 and 2003 than earlier estimates suggested. For capacity utilization, the revision places the factory operating rate at 73.5 percent for the fourth quarter of 2002 and at 73.2 percent for the third quarter of

2003—rates little different from earlier reports and among the lowest since the early 1980s.

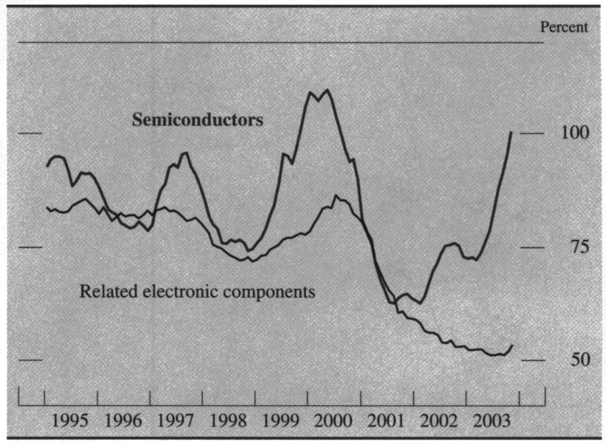
Within manufacturing, excluding the motor vehicles and parts and the high-technology industries, capacity is estimated to have contracted in 2002 and 2003. In the past three decades, capacity in this large category, which accounts for about three-quarters of industrial capacity, declined in only one other year—1983. The loss of productive capability in recent years has been widespread among the nondurable goods industries, particularly food, beverage, and tobacco products; textiles; apparel; paper; and basic chemicals. Among the durable goods industries, capacity has contracted for machinery and electrical equipment producers; but elsewhere, on balance, productive capability has increased. In the second quarter of 2003, utilization rates in both the nondurable and durable manufacturing industries reached twenty-year lows. Utilization rates among nondurable manufacturers were little changed in the third quarter, but rates among durable manufacturers rose about 1 percentage point.

The capacity of motor vehicles and parts producers continued to expand but was revised down noticeably in 2002 and 2003. The slower rate of increase in capacity for this industry is attributable primarily to lower unit capacity figures for both autos and light trucks. For the fourth quarter of 2002 and the third quarter of 2003, capacity utilization rates in the motor vehicles and parts industry were a bit higher than those reported previously, and the industry was operating at rates above its long-term average.

Among the high-technology industries, capacity expanded somewhat faster in most years, particularly in 2002, than earlier estimates suggested. Still, the rate of expansion in the past few years is substantially lower than it had been in the late 1990s. Capacity utilization in the third quarter of 2003 remained low but was higher than the rates for the fourth quarters of 2001 and 2002 (chart 2). Relative to earlier estimates, the revision shows lower utilization rates for the fourth quarter of 2002 in all three high-technology components. Utilization rates for the third quarter of 2003 were lower for computers but a bit higher for communications equipment and semiconductors.

The utilization rates among high-technology industries reflect the divergent patterns of production in recent years. For example, utilization rates for the two series that comprise the published aggregate for semiconductors and related components have differed sharply in the last year. The utilization rate for producers of semiconductors—about 60 percent of the aggregate—began to rebound in 2002, and by the end of the third quarter of 2003, the rate stood at

4. Utilization rates for selected high-technology industries

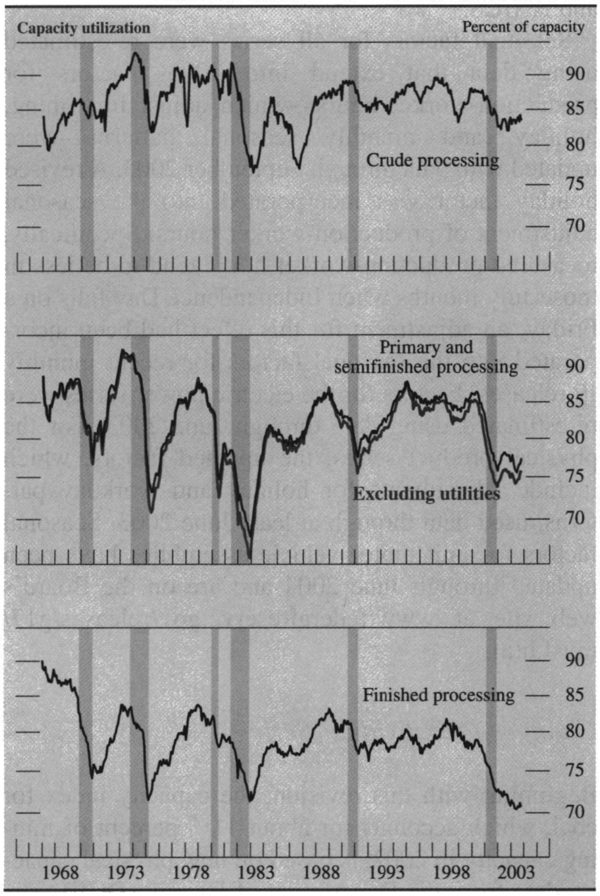


about 100 percent. However, as a result of a three-year slide in output, capacity utilization at plants making and assembling "other" related electronic components—the remaining 40 percent of the aggregate—is barely above 50 percent (chart 4). After falling in 2001, the utilization rate for computer manufacturers has been trending up from very low levels, but the utilization rate in the communications equipment industry continued to edge down during 2002 and hovered around 50 percent for most of 2003.

Outside manufacturing, capacity at mines, relative to earlier reports, contracted at a slightly faster pace in 1999, 2000, and 2003 and increased at a slightly faster rate in 2001 and 2002. The revised measures of capacity at electric and gas utilities show a slower rate of increase in 2000–03 than previously reported. The revision found that the capacity utilization rates at mines and utilities are generally higher than earlier estimates suggested. In particular, as a result of an upward revision to electricity generation, operating rates at utilities were revised up, on average, about 1 percent between 1999 and 2002, and utilization rates for natural gas extraction, after weakening at the end of 2001, strengthened considerably over the past year and a half.

The revisions to the capacity estimates for the stage-of-process groups were small. Compared with the earlier estimates, the revised capacity measures for 2003 reflect a larger contraction among producers of crude goods and a bit more of an increase for producers of primary, semifinished, and finished goods. For 2002, the rate of change for all categories is currently estimated to have been a bit stronger than previously reported. The utilization rates for producers of crude goods, which make up the smallest category, were higher in the third quarter of 2003 than earlier estimates suggested, but they remained

5. Capacity utilization by stage of process



NOTE. The shaded areas are periods of business recession as defined by the National Bureau of Economic Research.

a bit below their long-term average. The utilization rates for producers of primary and semifinished goods and of finished goods remained well below their long-term averages (chart 5).

Relative to earlier reports, the utilization rates for producers of primary and semifinished goods were a bit lower in the fourth quarter of 2002 and the third quarter of 2003, and the utilization rates for finished processors were a bit higher over the same period.

TECHNICAL ASPECTS OF THE REVISION

Benchmarks

As noted earlier, the annual revision incorporated comprehensive annual data on industry output, utilization, value added, and capital spending for 2001 and, in some instances, 2002, along with an update of all seasonal factors and monthly data on production, production-worker hours, and electric power use. Annual data on output and prices for previous years that were revised by the original source were also included.

As noted before, the revision incorporated data from the 2001 ASM and the revised 2000 ASM. These new data, deflated by industry-specific price indexes, are the basis for the annual estimates of manufacturing output for those years. After the incorporation of other annual output measures into IP, the average annual change in total IP between 1999 and 2000 was revised down 0.3 percent, and the rate of change between 2000 and 2001 was revised up 0.1 percent.

The industrial production and capacity data are based on the 2002 North American Industry Classification System (NAICS). Last year's historical revision reclassified production and capacity indexes back to 1972 for individual industries from the Standard Industrial Classification system to NAICS.[4] The Federal Reserve's accompanying indexes of industrial electric power use are also based on the 2002 NAICS. As in the 2002 revision, all indexes are expressed as percentages of output in 1997.

Changes to Market Groups

This revision adjusted the market group structure to incorporate the 1997 input–output (I–O) tables issued by the BEA in December 2002.[5] Beginning with the 2002 revision, the IP market groups were restructured to allow for the assignment of the output of one industry to multiple market groups. The rationale is that a market group index reflects the *input* to a defined economic activity, and an industry's output is often the input to more than a single market group. The revision derives the share of each industry's output that contributes to a single market group from the interindustry relationships described by the new 1997 I–O tables. One change in market groups is in the composition of consumer goods. With market group assignments based on the new 1997 I–O tables, the market group for consumer goods now contains portions of the output of the veneer and plywood, flooring, brick, concrete, gypsum, and hardware industries. Previously, the market group for

4. A complete summary of the revisions and general methods used to prepare the 2002 historical and annual revision of the IP index can be found in the *Federal Reserve Bulletin*, vol. 89 (April 2003), pp. 151–76 (www.federalreserve.gov/pubs/bulletin/2003/0403lead.pdf).

5. The annual revision scheduled for fall 2004 will update the stage-of-process groups to reflect the 1997 I–O relationships.

A complete list of the industries with output included in each market group can be found at www.federalreserve.gov/releases/g17/sdtab2.pdf. A similar list for detailed industry groups can be found at www.federalreserve.gov/releases/g17/sdtab1.pdf.

consumer goods did not include production from these industries.

Weights for Aggregation

The IP index is an annually weighted Fisher index. The current revision incorporates updated estimates of the industry value-added weights used in the aggregation of IP indexes and capacity utilization rates. The Census Bureau provides annual measures of value added for manufacturing and quinquennial measures for mining, and the Federal Reserve Board derives estimates of value added for the electric and gas utility industries from annual revenue and expense data issued by other organizations. Annual data through 2001 were used in the estimation of industry value added. The weights for aggregation, expressed as unit value added, were estimated using the latest data on producer prices. Appendix table A.8 shows the annual value-added proportions incorporated in the IP index from 1995 through 2002.

Revised Monthly Data

This revision incorporates the product data that become available or are revised after the regular four-month reporting window for monthly IP has closed. For example, monthly data from the Gas Appliance Manufacturers Association on the production of water heaters and storage batteries are unavailable initially but later become available for inclusion in the annual revision.

The measures of inputs used to estimate monthly production were also updated. These included revised data on monthly production-worker hours (based on the Bureau of Labor Statistics [BLS] benchmark of employment to March 2002 comprehensive measures) and on monthly electric power use since 1997. In June 2003, the BLS issued on a NAICS basis the national employment, hours, and earnings data from the Current Employment Statistics program. Most of the data on monthly production-worker hours were restated on a NAICS basis back to 1990. For years before 1990, the Federal Reserve Board derived NAICS-based series on production-worker hours from a historical SIC–NAICS concordance developed from plant-level data records maintained by the Census Bureau. This concordance was created first by converting to NAICS the industry assignment of each establishment in the Censuses of Manufactures from 1963 to 1992 and then by cross-tabulating production-worker hours on the bases of both SIC and NAICS.[6]

Seasonal factors for all series were re-estimated using data that extend into 2003. Factors for production-worker hours—which adjust for timing, holiday, and monthly seasonal patterns—were updated with data through September 2003. A revised holiday factor was incorporated into the seasonal adjustment of production-worker hours. Specifically, measured production-worker hours tend to be less in those July months when Independence Day falls on a Friday; an adjustment for this effect had been incorporated into the seasonal factors for recent monthly IP releases. Factors for the electric power series were re-estimated using data through June 2003. For the physical product series, the updated factors, which include adjustments for holiday and workday patterns, used data through at least June 2003. Seasonal factors for unit motor vehicle assemblies have been updated through June 2004 and are on the Board's web site at www.federalreserve.gov/releases/g17/mvsf.htm.

Changes to Individual Series

Beginning with this revision, the capacity index for coal, which accounts for about 11½ percent of mining capacity in 2002, is based on new physical capacity data from the Department of Energy (DOE). The new data produced estimates that were little different from those of the previous reports.

The production indexes for electricity generation reflect two changes. First, revisions by the DOE to the data for electric power producers resulted in new methods for constructing the output indexes for electricity generation. The index is constructed from the sum of generation by electric utilities and of that by independent power producers (IPP). Previously, the DOE provided pooled monthly information for all non-utility power producers, which includes both IPPs and industrial and commercial power producers (which produce electricity for their own use). In the past, the Federal Reserve Board estimated monthly power output for the industrial and commercial power producers and then subtracted this amount from the DOE non-utilities total. Recently the DOE began providing separate monthly generation figures for IPPs and for industrial and commercial power producers; thus, independent estimates of the contribution of the industrial and commercial power producers to the non-utilities total are no longer necessary.

6. A more-thorough discussion of the historical SIC–NAICS concordance can be found in the April 2003 *Bulletin* article.

These changes are reflected in the electricity generation indexes from 1989 to the present.

Second, a change to the calculation of the output index for the nuclear power industry and the construction of its value-added weight resulted in an increase in the average rate of change of the aggregate generation series. The revised aggregate electricity generation index increased between 0.3 and 0.4 percentage point per year faster than did the previous series.

A new price deflator for photocopiers was also introduced. The revision incorporates a hedonic price index developed by the BEA that covers 1992 to the present. The Federal Reserve Board extended the BEA index back to 1972 based on annual data on the average cost per page and pages per minute provided by the School of Print Media of the Rochester Institute of Technology. These data were converted to a measure comparable to the BEA price deflator and were retrended to align with the BEA index for the period in which the two series overlap, 1992–2002. The adjusted price measure was then used to retrend the monthly deflator based on the producer price index for this industry. The resulting new price index was then used to deflate photocopier output back to 1972. The Federal Reserve neither maintains nor publishes a detailed production index for photographic and photocopying equipment manufacturing (NAICS 333315); the most detailed series that includes photocopiers is the aggregate of commercial and service industry machinery manufacturing (NAICS 3333). However, an annual benchmark output index, derived from the ASM, is computed for each six-digit NAICS industry in NAICS 3333 as gross output (cost of materials plus value added) divided by a price deflator. The six-digit NAICS output indexes are then aggregated to the IP industry level with the appropriate value-added weights. □

Appendix tables start on page 40

Appendix A: Tables Based on the G.17 Release, December 16, 2003

A.1. Revised data for industrial production for total industry

Seasonally adjusted data except as noted

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Annual avg.[1]
	Industrial production (percent change)																
1972	2.4	1.0	.8	.9	.0	.2	.0	1.2	.7	1.3	1.2	1.4	18.4	7.9	4.7	14.5	9.6
1973	.8	1.4	.1	-.3	.7	.1	.4	-.2	.8	.6	.4	-.2	13.0	2.8	3.1	5.2	8.2
1974	-.5	-.4	.1	.0	.5	-.1	-.1	-.9	.0	-.5	-3.2	-3.5	-2.9	1.0	-2.6	-15.2	-.4
1975	-1.1	-2.2	-1.1	-.1	-.2	.7	1.0	.8	1.2	.2	.3	1.4	-22.8	-5.8	9.7	7.7	-8.9
1976	1.5	1.2	.0	.7	.4	.0	.5	.7	.1	.2	1.5	1.2	13.8	5.7	4.6	7.7	7.8
1977	-.5	1.4	1.3	.9	.7	.7	.3	.0	.4	.2	.0	.2	9.0	12.5	4.7	2.6	7.7
1978	-1.2	.3	1.9	1.9	.5	.7	.0	.3	.2	.7	.7	.6	-.7	16.5	3.6	6.8	5.5
1979	-.5	.6	.3	-.9	.7	.0	-.3	-.7	.0	.4	-.1	.1	2.4	-.1	-2.0	.6	3.0
1980	.6	.1	-.3	-2.0	-2.4	-1.3	-.6	.2	1.6	1.0	1.7	.6	2.2	-15.6	-6.2	15.2	-2.6
1981	-.6	-.3	.5	-.4	.7	.5	.7	-.1	-.7	-.8	-1.1	-1.1	1.3	1.8	4.0	-9.1	1.3
1982	-1.8	1.9	-.7	-.8	-.7	-.3	-.4	-.9	-.5	-.9	-.4	-.8	-7.2	-4.7	-6.1	-7.7	-5.1
1983	1.8	-.5	.8	1.3	.7	.6	1.5	1.1	1.5	.8	.3	.7	4.3	10.0	14.4	10.7	2.6
1984	2.0	.3	.7	.6	.6	.4	.3	.1	-.2	-.2	.3	.1	12.4	6.8	3.0	-.1	9.1
1985	-.3	.5	.1	.0	.1	.0	-.6	.5	.4	-.5	.3	1.0	1.0	1.0	-.6	1.9	1.3
1986	.6	-.7	-.7	.1	.2	-.3	.6	-.2	.2	.4	.5	.9	2.6	-2.4	1.6	4.5	1.0
1987	-.5	1.4	.2	.7	.6	.7	.6	.7	.2	1.4	.5	.4	4.9	7.7	7.3	9.1	5.0
1988	.1	.5	.2	.4	.0	.2	.2	.5	-.3	.5	.2	.5	3.6	3.0	2.2	3.1	5.0
1989	.3	-.5	.3	-.1	-.6	.0	-1.0	.9	-.3	-.1	.2	.7	1.6	-1.7	-2.8	1.5	.9
1990	-.5	.9	.4	.0	.1	.3	-.2	.3	.2	-.7	-1.2	-.7	3.0	3.0	1.3	-5.9	.9
1991	-.4	-.7	-.5	.2	1.0	1.0	.0	.0	.9	-.2	-.1	-.3	-7.4	2.6	5.3	.7	-1.5
1992	-.6	.9	.7	.7	.4	-.1	.8	-.3	.1	.7	.5	.0	-.1	7.0	2.7	4.3	2.8
1993	.4	.4	.1	.2	-.3	.2	.4	-.1	.6	.6	.4	.6	3.5	1.1	2.1	6.2	3.3
1994	.5	.1	.9	.5	.6	.7	.2	.6	.2	.8	.6	1.1	5.9	7.2	5.1	7.8	5.4
1995	.4	.0	.0	.0	.2	.3	-.4	1.4	.5	-.2	.4	.4	5.7	.9	3.7	3.7	4.8
1996	-.7	1.3	-.2	.9	.7	.9	-.1	.7	.6	.1	.9	.5	2.0	8.0	5.8	6.3	4.3
1997	.3	1.4	.3	.5	.4	.5	.6	1.0	.8	.8	.7	.3	8.5	6.5	8.3	9.2	7.4
1998	.5	.3	.3	.6	.5	-.4	-.2	2.0	-.2	.8	-.3	.0	5.0	4.2	3.7	4.9	5.9
1999	.6	.4	.4	.2	.7	.1	.5	.7	-.2	1.0	.5	.8	3.6	4.4	4.9	7.0	4.4
2000	-.1	.6	.4	.7	.6	.1	-.5	-.1	.4	-.4	-.1	-.3	4.6	6.7	-.6	-1.3	4.4
2001	-.9	-.5	-.4	-.3	-.5	-.6	-.4	-.2	-.6	-.2	-.5	-.2	-6.3	-5.0	-5.2	-4.5	-3.4
2002	.6	.2	.4	.4	.2	.6	-.1	.0	-.1	-.3	.1	-.5	1.9	4.2	1.2	-1.9	-.6
2003	.5	.4	-.7	-.6	-.1	.0	.8	.0	.6	.4	.9	...	.9	-4.0	3.8	...	...
	Industrial production (1997 = 100)																
1972	50.0	50.5	50.9	51.3	51.4	51.5	51.5	52.1	52.4	53.1	53.7	54.5	50.4	51.4	52.0	53.8	51.9
1973	54.9	55.7	55.8	55.6	56.0	56.0	56.2	56.1	56.5	56.9	57.1	57.0	55.5	55.8	56.3	57.0	56.1
1974	56.7	56.5	56.6	56.5	56.8	56.8	56.7	56.2	56.2	55.9	54.1	52.2	56.6	56.7	56.3	54.1	55.9
1975	51.6	50.5	49.9	49.9	49.8	50.1	50.6	51.0	51.6	51.7	51.9	52.6	50.7	49.9	51.1	52.1	50.9
1976	53.3	54.0	54.0	54.4	54.6	54.6	54.9	55.2	55.3	55.4	56.2	56.9	53.8	54.5	55.1	56.2	54.9
1977	56.6	57.4	58.2	58.7	59.1	59.5	59.7	59.7	60.0	60.1	60.1	60.3	57.4	59.1	59.8	60.2	59.1
1978	59.6	59.7	60.9	62.1	62.4	62.8	62.8	63.0	63.1	63.6	64.0	64.4	60.1	62.4	63.0	64.0	62.4
1979	64.1	64.4	64.6	64.1	64.5	64.5	64.3	63.9	63.9	64.2	64.1	64.2	64.4	64.4	64.0	64.1	64.2
1980	64.5	64.6	64.4	63.1	61.6	60.8	60.4	60.5	61.5	62.2	63.2	63.6	64.5	61.8	60.8	63.0	62.5
1981	63.2	63.0	63.4	63.1	63.5	63.9	64.3	64.2	63.8	63.3	62.6	61.9	63.2	63.5	64.1	62.6	63.4
1982	60.8	62.0	61.5	61.0	60.6	60.4	60.2	59.7	59.4	58.9	58.6	58.2	61.4	60.7	59.8	58.6	60.1
1983	59.2	58.9	59.4	60.2	60.6	61.0	61.9	62.6	63.5	64.0	64.2	64.6	59.2	60.6	62.7	64.3	61.7
1984	65.9	66.1	66.6	67.0	67.4	67.6	67.8	67.9	67.7	67.6	67.8	67.9	66.2	67.3	67.8	67.8	67.3
1985	67.7	68.1	68.1	68.1	68.2	68.2	67.7	68.1	68.3	68.0	68.2	68.9	68.0	68.1	68.1	68.4	68.1
1986	69.3	68.8	68.3	68.4	68.5	68.3	68.7	68.6	68.7	69.0	69.3	70.0	68.8	68.4	68.7	69.4	68.8
1987	69.6	70.6	70.7	71.2	71.6	72.0	72.5	73.0	73.1	74.1	74.5	74.8	70.3	71.6	72.9	74.5	72.3
1988	74.8	75.2	75.4	75.7	75.7	75.8	75.9	76.3	76.1	76.5	76.6	77.0	75.1	75.7	76.1	76.7	75.9
1989	77.2	76.8	77.0	77.0	76.5	76.5	75.8	76.5	76.2	76.1	76.3	76.8	77.0	76.7	76.1	76.4	76.6
1990	76.5	77.1	77.4	77.4	77.5	77.7	77.6	77.8	78.0	77.4	76.5	76.0	77.0	77.6	77.8	76.6	77.2
1991	75.7	75.1	74.7	74.9	75.7	76.4	76.4	76.4	77.1	76.9	76.8	76.6	75.2	75.7	76.6	76.8	76.1
1992	76.1	76.8	77.4	77.9	78.2	78.1	78.7	78.5	78.6	79.2	79.6	79.6	76.8	78.1	78.6	79.4	78.2
1993	79.9	80.2	80.3	80.5	80.2	80.4	80.7	80.6	81.0	81.6	81.9	82.4	80.1	80.3	80.8	82.0	80.8
1994	82.9	82.9	83.7	84.1	84.6	85.2	85.3	85.8	85.9	86.6	87.2	88.1	83.2	84.6	85.7	87.3	85.2
1995	88.5	88.5	88.5	88.5	88.7	89.0	88.6	89.8	90.2	90.0	90.3	90.7	88.5	88.7	89.5	90.4	89.3
1996	90.1	91.3	91.1	91.9	92.5	93.4	93.2	93.9	94.5	94.5	95.4	96.0	90.8	92.6	93.9	95.3	93.1
1997	96.3	97.6	97.9	98.4	98.8	99.3	99.9	100.9	101.7	102.5	103.2	103.5	97.3	98.8	100.8	103.1	100.0
1998	104.0	104.3	104.6	105.2	105.7	105.3	105.0	107.1	106.9	107.8	107.5	107.5	104.3	105.4	106.4	107.6	105.9
1999	108.2	108.6	109.0	109.2	110.0	110.1	110.6	111.4	111.1	112.3	112.8	113.7	108.6	109.7	111.1	112.9	110.6
2000	113.6	114.3	114.7	115.6	116.3	116.4	115.8	115.7	116.2	115.7	115.6	115.3	114.2	116.1	115.9	115.5	115.4
2001	114.2	113.6	113.2	112.8	112.3	111.6	111.1	110.9	110.2	109.9	109.4	109.1	113.7	112.2	110.7	109.5	111.5
2002	109.7	109.9	110.3	110.8	110.9	111.7	111.5	111.5	111.3	111.0	111.2	110.6	110.0	111.1	111.5	110.9	110.9
2003	111.2	111.6	110.8	110.1	110.0	110.0	110.8	110.9	111.5	111.9	112.9	...	111.2	110.0	111.1	...	...

NOTE. Monthly percent change figures show the change from the previous month; quarterly figures show the change from the previous quarter at a compound annual rate of growth. Production and capacity indexes are expressed as percentages of output in 1997.

Estimates from September 2003 through November 2003 are subject to further revision in the upcoming monthly releases.

1. Annual averages of industrial production are calculated from not seasonally adjusted indexes.

. . . Not available as of December 16, 2003.

A.2. Revised data for capacity and utilization for total industry

Seasonally adjusted data except as noted

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Annual avg.[1]
	Capacity (percent of 1997 output)																
1972	60.6	60.8	60.9	61.0	61.2	61.3	61.5	61.6	61.8	62.0	62.1	62.3	60.8	61.2	61.6	62.1	61.4
1973	62.5	62.7	62.9	63.1	63.3	63.5	63.7	63.9	64.1	64.3	64.5	64.7	62.7	63.3	63.9	64.5	63.6
1974	64.9	65.1	65.3	65.5	65.6	65.8	66.0	66.1	66.3	66.4	66.6	66.7	65.1	65.6	66.1	66.5	65.9
1975	66.8	66.9	67.0	67.2	67.3	67.4	67.5	67.6	67.7	67.9	68.0	68.1	66.9	67.3	67.6	68.0	67.5
1976	68.3	68.4	68.5	68.7	68.8	69.0	69.1	69.3	69.4	69.6	69.7	69.9	68.4	68.8	69.3	69.7	69.1
1977	70.0	70.2	70.4	70.5	70.7	70.9	71.1	71.3	71.4	71.6	71.8	72.0	70.2	70.7	71.3	71.8	71.0
1978	72.2	72.4	72.6	72.8	73.0	73.2	73.4	73.6	73.8	74.0	74.2	74.4	72.4	73.0	73.6	74.2	73.3
1979	74.5	74.7	74.9	75.1	75.3	75.4	75.6	75.7	75.9	76.1	76.2	76.4	74.7	75.3	75.7	76.2	75.5
1980	76.5	76.6	76.8	76.9	77.1	77.2	77.4	77.5	77.6	77.8	77.9	78.1	76.6	77.1	77.5	78.0	77.3
1981	78.3	78.4	78.6	78.8	79.0	79.1	79.3	79.5	79.7	79.9	80.1	80.3	78.4	79.0	79.5	80.1	79.3
1982	80.5	80.7	80.8	81.0	81.2	81.4	81.5	81.6	81.8	81.9	82.0	82.1	80.7	81.2	81.6	82.0	81.4
1983	82.2	82.2	82.3	82.3	82.4	82.4	82.5	82.5	82.6	82.6	82.7	82.8	82.2	82.4	82.5	82.7	82.4
1984	82.8	82.9	83.1	83.2	83.3	83.4	83.6	83.8	83.9	84.1	84.3	84.5	82.9	83.3	83.8	84.3	83.6
1985	84.7	84.9	85.1	85.2	85.4	85.6	85.8	86.0	86.2	86.3	86.5	86.6	84.9	85.4	86.0	86.5	85.7
1986	86.7	86.9	87.0	87.1	87.2	87.3	87.4	87.5	87.6	87.8	87.9	88.0	86.9	87.2	87.5	87.9	87.4
1987	88.2	88.3	88.4	88.6	88.7	88.9	89.0	89.2	89.3	89.4	89.5	89.6	88.3	88.7	89.2	89.5	88.9
1988	89.7	89.8	89.9	89.9	90.0	90.0	90.1	90.2	90.2	90.3	90.4	90.5	89.8	90.0	90.2	90.4	90.1
1989	90.7	90.8	90.9	91.1	91.3	91.4	91.6	91.8	92.0	92.2	92.4	92.6	90.8	91.3	91.8	92.4	91.6
1990	92.7	92.9	93.1	93.3	93.5	93.7	93.8	94.0	94.2	94.3	94.5	94.6	92.9	93.5	94.0	94.5	93.7
1991	94.8	94.9	95.1	95.2	95.4	95.5	95.7	95.8	96.0	96.1	96.3	96.4	94.9	95.4	95.8	96.3	95.6
1992	96.6	96.7	96.9	97.0	97.2	97.4	97.5	97.7	97.8	98.0	98.2	98.3	96.7	97.2	97.7	98.2	97.4
1993	98.5	98.6	98.8	99.0	99.1	99.3	99.4	99.6	99.8	100.0	100.2	100.4	98.6	99.1	99.6	100.2	99.4
1994	100.6	100.8	101.0	101.3	101.6	101.9	102.2	102.5	102.8	103.2	103.5	103.9	100.8	101.6	102.5	103.5	102.1
1995	104.3	104.7	105.1	105.6	106.0	106.5	106.9	107.4	107.9	108.4	109.0	109.5	104.7	106.0	107.4	109.0	106.8
1996	110.0	110.6	111.1	111.6	112.2	112.7	113.3	113.8	114.3	114.9	115.4	115.9	110.6	112.2	113.8	115.4	113.0
1997	116.4	117.0	117.5	118.0	118.6	119.2	119.8	120.4	121.0	121.7	122.4	123.1	117.0	118.6	120.4	122.4	119.6
1998	123.9	124.6	125.3	126.1	126.8	127.5	128.1	128.8	129.4	130.0	130.6	131.1	124.6	126.8	128.8	130.6	127.7
1999	131.7	132.2	132.6	133.1	133.5	134.0	134.4	134.9	135.3	135.8	136.3	136.7	132.1	133.5	134.9	136.3	134.2
2000	137.2	137.7	138.2	138.7	139.2	139.7	140.1	140.6	141.0	141.5	141.9	142.2	137.7	139.2	140.6	141.8	139.8
2001	142.6	142.9	143.2	143.5	143.8	144.0	144.3	144.5	144.7	144.9	145.2	145.4	142.9	143.8	144.5	145.2	144.1
2002	145.6	145.8	146.0	146.2	146.4	146.6	146.8	147.0	147.2	147.3	147.5	147.7	145.8	146.4	147.0	147.5	146.7
2003	147.8	148.0	148.1	148.3	148.4	148.5	148.7	148.8	148.9	149.0	149.1	...	148.0	148.4	148.8	...	...
	Utilization (percent)																
1972	82.4	83.1	83.5	84.1	84.0	83.9	83.7	84.5	84.9	85.7	86.5	87.5	83.0	84.0	84.4	86.6	84.5
1973	87.9	88.8	88.7	88.1	88.4	88.2	88.2	87.8	88.2	88.5	88.5	88.0	88.5	88.3	88.1	88.3	88.3
1974	87.3	86.7	86.6	86.4	86.6	86.3	85.9	84.9	84.8	84.2	81.3	78.3	86.9	86.4	85.2	81.2	84.9
1975	77.3	75.4	74.5	74.3	74.0	74.4	75.0	75.5	76.2	76.2	76.3	77.2	75.7	74.2	75.6	76.6	75.5
1976	78.1	78.9	78.8	79.2	79.3	79.1	79.4	79.7	79.7	79.6	80.6	81.4	78.6	79.2	79.6	80.5	79.5
1977	80.8	81.7	82.6	83.2	83.6	83.9	84.0	83.8	83.9	83.9	83.7	83.6	81.7	83.6	83.9	83.7	83.2
1978	82.5	82.5	83.8	85.2	85.4	85.8	85.5	85.5	85.5	85.9	86.3	86.6	82.9	85.4	85.5	86.3	85.0
1979	85.9	86.2	86.3	85.3	85.7	85.5	85.1	84.3	84.2	84.4	84.1	84.0	86.2	85.5	84.5	84.2	85.1
1980	84.3	84.2	83.8	82.0	79.9	78.7	78.1	78.1	79.3	79.9	81.1	81.5	84.1	80.2	78.5	80.8	80.9
1981	80.8	80.4	80.6	80.1	80.4	80.7	81.1	80.8	80.0	79.2	78.1	77.1	80.6	80.4	80.6	78.2	79.9
1982	75.5	76.8	76.1	75.3	74.7	74.3	73.9	73.1	72.6	71.9	71.5	70.9	76.2	74.8	73.2	71.4	73.9
1983	72.1	71.7	72.2	73.1	73.6	74.0	75.1	75.9	77.0	77.5	77.7	78.1	72.0	73.6	76.0	77.8	74.8
1984	79.6	79.7	80.2	80.5	80.9	81.0	81.1	81.1	80.7	80.4	80.5	80.4	79.8	80.8	81.0	80.4	80.5
1985	80.0	80.2	80.1	79.9	79.8	79.6	79.0	79.2	79.3	78.8	78.9	79.5	80.1	79.8	79.1	79.1	79.5
1986	79.9	79.2	78.6	78.5	78.6	78.3	78.6	78.4	78.4	78.6	78.9	79.5	79.2	78.4	78.5	79.0	78.8
1987	78.9	79.9	79.9	80.3	80.7	81.0	81.4	81.8	81.9	82.9	83.2	83.5	79.6	80.7	81.7	83.2	81.3
1988	83.4	83.8	83.9	84.2	84.1	84.2	84.3	84.7	84.3	84.7	84.8	85.0	83.7	84.1	84.4	84.8	84.3
1989	85.2	84.6	84.7	84.5	83.8	83.7	82.7	83.3	82.8	82.6	82.6	83.0	84.8	84.0	82.9	82.7	83.6
1990	82.4	83.0	83.1	83.0	82.9	83.0	82.7	82.8	82.8	82.1	81.0	80.3	82.9	83.0	82.8	81.1	82.4
1991	79.8	79.1	78.6	78.6	79.3	80.0	79.8	79.8	80.3	80.0	79.8	79.4	79.2	79.3	80.0	79.7	79.6
1992	78.8	79.4	79.9	80.3	80.4	80.3	80.8	80.4	80.3	80.8	81.1	80.9	79.4	80.3	80.5	80.9	80.3
1993	81.1	81.3	81.3	81.3	80.9	80.9	81.1	80.9	81.2	81.6	81.8	82.1	81.2	81.1	81.1	81.8	81.3
1994	82.4	82.3	82.8	83.0	83.3	83.6	83.5	83.7	83.6	83.9	84.2	84.8	82.5	83.3	83.6	84.3	83.4
1995	84.8	84.5	84.2	83.8	83.7	83.6	82.8	83.6	83.6	83.0	82.9	82.9	84.5	83.7	83.3	82.9	83.6
1996	81.9	82.6	82.0	82.3	82.5	82.8	82.3	82.5	82.6	82.3	82.7	82.8	82.1	82.5	82.5	82.6	82.4
1997	82.7	83.5	83.4	83.4	83.3	83.3	83.4	83.8	84.0	84.2	84.3	84.1	83.2	83.3	83.7	84.2	83.6
1998	84.0	83.7	83.5	83.5	83.4	82.6	81.9	83.2	82.6	82.9	82.3	82.0	83.7	83.1	82.6	82.4	83.0
1999	82.2	82.1	82.2	82.1	82.3	82.1	82.3	82.6	82.1	82.7	82.8	83.2	82.2	82.2	82.3	82.9	82.4
2000	82.8	83.0	83.0	83.3	83.5	83.3	82.7	82.3	82.4	81.8	81.5	81.0	82.9	83.4	82.4	81.4	82.6
2001	80.1	79.5	79.0	78.6	78.1	77.5	77.0	76.7	76.1	75.8	75.3	75.1	79.5	78.0	76.6	75.4	77.4
2002	75.4	75.4	75.6	75.8	75.8	76.2	76.0	75.9	75.7	75.4	75.4	74.9	75.4	75.9	75.8	75.2	75.6
2003	75.2	75.4	74.8	74.2	74.1	74.0	74.5	74.5	74.9	75.1	75.7	...	75.1	74.1	74.6	...	...

NOTE. See also general note to table A.1. ... Not available as of December 16, 2003.

A.3. Rates of change in industrial production, by market and industry group, 1999–2003[1]

Item	NAICS code[2]	Revised rate of change (percent)					Difference between rates of change: revised minus earlier (percentage points)				
		1999	2000	2001	2002	2003	1999	2000	2001	2002	2003
Total industry	. . .	**4.9**	**2.3**	**–5.2**	**1.3**	**.2**	**.0**	**–.4**	**.4**	**–.1**	**.3**
Market Group											
Final products and nonindustrial supplies	. . .	2.8	2.3	–4.9	.5	.0	–.6	–.9	.5	.1	–.1
Consumer goods	. . .	2.4	1.0	–2.2	1.0	–.6	–.2	–.1	–.1	–.5	–.5
Durable	. . .	4.6	–1.9	–2.9	6.0	1.7	–1.1	.1	.1	.0	–.6
Automotive products	. . .	5.1	–5.1	1.1	9.9	4.3	–.4	–.3	–.6	.3	–.2
Home electronics	. . .	11.9	15.7	–10.3	4.4	10.7	–7.9	6.6	3.2	6.2	–3.7
Appliances, furniture, carpeting	. . .	2.3	–.5	–2.0	1.8	1.6	.0	.5	2.6	.1	.5
Miscellaneous goods	. . .	3.7	–.3	–8.1	2.4	–4.4	–.6	–.9	1.4	.2	1.0
Nondurable	. . .	1.5	2.1	–1.9	–.8	–1.3	.1	–.1	–.1	–.7	–.6
Non-energy	. . .	1.2	1.0	–1.0	–2.8	–.9	.0	–.1	.0	–1.2	.1
Foods and tobacco	. . .	.2	.7	–.6	–3.9	–1.5	–.1	1.1	1.6	–2.9	.5
Clothing	. . .	–3.1	–5.6	–15.1	–2.4	–18.4	–.3	.6	–2.5	2.2	–2.7
Chemical products	. . .	4.5	4.4	3.0	–1.8	1.1	–.3	–2.1	–1.8	1.3	–2.2
Paper products	. . .	3.2	–1.2	–3.2	–.9	5.4	1.2	–2.2	–3.0	–.5	4.7
Energy	. . .	3.1	7.1	–5.8	8.7	–2.9	.1	–.5	–.6	.6	–3.4
Business equipment	. . .	3.8	6.8	–12.8	–1.4	1.1	–.2	–1.1	1.5	2.4	.0
Transit	. . .	–11.5	–11.2	–5.9	–15.2	–7.3	–1.3	–2.6	6.2	.4	–1.2
Information processing	. . .	19.0	19.2	–12.8	5.5	8.1	.4	–.8	.6	7.1	.3
Industrial and other	. . .	–.5	4.9	–15.0	–1.0	–.5	–.7	–1.4	.7	–.3	.0
Defense and space equipment	. . .	–9.5	–3.1	12.4	3.6	5.9	–4.4	–2.7	12.4	1.3	–1.2
Construction supplies	. . .	2.6	–.1	–6.5	.4	–1.0	.5	–.9	–.5	–.2	1.7
Business supplies	. . .	4.9	2.9	–5.6	1.4	.1	–2.6	–3.5	–.5	–.8	.2
Materials	. . .	8.0	2.2	–5.7	2.5	.3	.7	.2	.3	–.3	.7
Non-energy	. . .	9.7	2.3	–6.6	3.0	.3	.9	.1	.3	.2	1.2
Durable	. . .	12.9	5.6	–7.2	4.2	1.7	1.1	.0	.6	.4	1.4
Consumer parts	. . .	7.2	–7.1	–7.2	6.7	–.7	.3	–.8	–3.4	–1.2	–.8
Equipment parts	. . .	25.6	23.0	–7.4	5.9	10.0	2.3	–.3	2.8	2.2	3.4
Other	. . .	3.6	–3.9	–6.8	1.5	–3.5	–.3	–.3	.4	–.4	.3
Nondurable	. . .	3.7	–3.7	–5.6	.9	–2.0	.0	–.2	–.2	–.4	.7
Textile	. . .	.6	–9.7	–11.6	–1.0	–15.8	.3	–.1	1.0	–1.1	–.4
Paper	. . .	2.3	–4.7	–6.1	1.5	–4.8	–.4	–.9	–.5	–1.5	.4
Chemical	. . .	7.4	–3.9	–5.1	1.7	.3	.0	.2	.3	.5	.4
Energy	. . .	1.3	1.7	–2.9	1.0	.3	.1	.7	.5	–1.6	–1.0
Industry Group											
Manufacturing[3]	. . .	5.5	2.0	–5.6	1.0	.4	.0	–.5	.5	.1	.7
Manufacturing (NAICS)	31–33	5.5	2.2	–5.5	1.2	.2	.0	–.4	.7	.1	.4
Durable manufacturing	. . .	7.8	4.8	–7.3	3.0	1.8	.0	–.7	1.0	1.1	.7
Wood products	321	1.7	–6.5	–2.2	–1.8	.3	–.1	.3	.9	–.7	1.3
Nonmetallic mineral products	327	.3	–1.7	–5.6	2.1	–.4	.3	–1.4	–5.7	–.5	.8
Primary metal	331	3.6	–9.1	–10.6	3.5	–6.4	–.3	.4	.9	–.1	2.4
Fabricated metal products	332	2.6	.0	–8.4	–.1	–4.2	.0	–.4	–.6	–1.2	.1
Machinery	333	.1	2.5	–17.1	–.9	.8	–.2	–2.4	.7	–.1	–1.0
Computer and electronic products	334	31.0	29.4	–7.5	10.8	14.7	.4	–1.4	2.0	6.8	3.3
Electrical equipment, appliances, and components	335	3.5	2.3	–12.7	–2.3	–2.0	.6	–.4	–1.9	–.3	1.2
Motor vehicles and parts	3361–3	5.8	–9.1	–2.8	9.9	2.1	.1	–.7	–1.6	–1.0	–.8
Aerospace and miscellaneous transportation equipment	3364–9	–12.4	–3.9	4.9	–9.7	–.8	–1.2	.9	9.8	.9	–2.3
Furniture and related products	337	2.0	.6	–7.4	–.4	–3.2	–.3	.0	1.4	1.4	1.8
Miscellaneous	339	2.2	6.1	–2.8	3.5	–1.7	.2	2.3	2.9	1.7	.1
Nondurable manufacturing	. . .	2.4	–1.4	–3.3	–.9	–1.7	–.1	–.1	.2	–1.1	.1
Food, beverage, and tobacco products	311,2	.1	.6	–.4	–3.5	–1.1	–.1	1.0	1.4	–2.8	.6
Textile and product mills	313,4	2.1	–6.4	–10.3	–1.3	–10.7	.2	–.1	2.2	–1.0	–.7
Apparel and leather	315,6	–3.4	–5.4	–15.5	–2.0	–17.6	–.3	.5	–2.5	2.5	–2.6
Paper	322	1.8	–4.8	–6.0	2.9	–3.6	–.3	–.7	–.3	–.1	–.8
Printing and support	323	.4	–1.4	–6.7	–1.7	–5.5	.0	–.6	–1.1	–4.7	2.0
Petroleum and coal products	324	2.6	–1.7	–2.5	1.2	1.0	1.0	–1.2	–2.1	–.1	1.1
Chemical	325	5.1	–.2	–1.3	–.1	1.2	–.4	–.6	–.1	.9	–.6
Plastics and rubber products	326	6.1	–3.2	–5.7	2.2	–1.3	–.2	–1.2	.0	–.5	.1
Other manufacturing (non-NAICS)	1133,5111	4.6	–1.5	–6.3	–2.2	4.3	.8	–1.9	–2.4	–.4	4.1
Mining	21	.2	1.1	–1.0	–2.3	.2	.0	.3	–.4	–.4	.1
Utilities	2211,2	2.3	6.1	–5.2	6.6	–2.2	.3	.1	.3	–1.1	–3.0
Electric	2211	2.1	4.9	–3.7	5.5	–.4	.4	.1	.3	–1.6	–2.4
Natural gas	2212	3.8	12.9	–12.8	13.4	–10.3	–.3	.1	–.3	1.5	–4.4

NOTE. Estimates for the third quarter of 2003 are subject to further revision in the upcoming monthly releases.

1. Rates of change are calculated as the percent change in the seasonally adjusted index from the fourth quarter of the previous year to the fourth quarter of the year specified in the column heading. For 2003, the rates are calculated from the fourth quarter of 2002 to the third quarter of 2003 and are annualized.

2. North American Industry Classification System.

3. Manufacturing comprises those industries included in the NAICS definition of manufacturing plus those industries—logging and newspaper, periodical, book and directory publishing—that have traditionally been considered to be a part of manufacturing and are included in the industrial sector.

. . . Not applicable.

A.4. Rates of change in industrial production, special aggregates and selected detail, 1999–2003[1]

Item	NAICS code[2]	Revised rate of change (percent)					Difference between rates of change: revised minus earlier (percentage points)				
		1999	2000	2001	2002	2003	1999	2000	2001	2002	2003
Total industry	. . .	**4.9**	**2.3**	**–5.2**	**1.3**	**.2**	**.0**	**–.4**	**.4**	**–.1**	**.3**
Energy	. . .	2.0	3.9	–3.6	2.9	–.8	.1	.2	–.1	–.9	–1.8
Consumer products	. . .	3.1	7.1	–5.8	8.7	–2.9	.1	–.5	–.6	.6	–3.4
Commercial products	. . .	2.2	6.0	–1.6	3.5	–3.1	.4	–1.1	–2.0	–1.1	–3.2
Oil and gas well drilling	. . .	9.6	29.3	–10.9	–14.8	5.2	–.2	–.1	.0	.1	1.1
Converted fuel	. . .	2.1	5.4	–7.9	3.7	.2	–.2	.1	–.2	.8	–4.5
Primary materials	. . .	.7	–.3	–.2	–.4	.5	.2	1.0	.8	–2.8	1.0
Non-energy	. . .	5.4	2.0	–5.6	1.0	.4	.0	–.5	.5	.1	.7
Selected high-technology industries	. . .	42.4	38.2	–8.4	15.3	20.7	.8	–1.9	1.2	8.2	5.2
Computers and office equipment	3341	14.1	19.1	–5.7	24.0	10.1	–5.6	1.4	.2	4.1	–11.0
Communications equipment	3342	31.5	27.7	–22.8	–5.5	6.9	4.4	–2.6	–2.7	11.1	8.6
Semiconductors and related electronic components	334412–9	64.6	52.8	.8	24.9	34.7	2.6	–3.0	4.2	5.1	10.0
Excluding selected high-technology industries	. . .	1.8	–1.5	–5.2	–.1	–.9	–.1	–.3	.4	–.5	.4
Motor vehicles and parts	3361–3	5.8	–9.1	–2.8	9.9	2.1	.1	–.7	–1.6	–1.0	–.8
Motor vehicles	3361	2.6	–12.2	1.5	11.6	3.6	.0	–.2	–.5	–.5	.5
Motor vehicle parts	3363	8.3	–5.7	–5.3	7.8	.9	.4	–1.5	–3.1	–.9	–1.8
Excluding motor vehicles and parts	. . .	1.4	–.8	–5.5	–1.0	–1.2	–.1	–.3	.6	–.4	.5
Consumer goods	. . .	2.3	–.2	–1.5	–.3	–.2	.5	–1.0	.7	1.0	.9
Business equipment	. . .	–3.5	3.8	–11.5	–4.6	–.6	–.7	–1.6	2.3	1.3	.4
Construction supplies	. . .	2.4	–.4	–6.4	.5	–1.1	.4	–.8	–.4	–.3	1.6
Business supplies	. . .	2.1	.5	–5.5	.7	–.9	.1	–.7	–.6	–.6	.7
Materials	. . .	3.1	–2.9	–7.2	.3	–2.4	–.1	–.1	.1	–.6	.3
Measures excluding selected high-technology industries											
Total industry	. . .	1.8	–.6	–4.9	.4	–.9	.0	–.2	.3	–.6	.0
Manufacturing[3]	. . .	1.8	–1.5	–5.2	–.1	–.8	–.1	–.3	.4	–.5	.3
Durable	. . .	1.1	–1.6	–6.9	1.0	–.8	–.1	–.3	.9	–.1	.0
Measures excluding motor vehicles and parts											
Total industry	. . .	4.9	3.1	–5.4	.8	.0	.0	–.4	.5	.1	.4
Manufacturing[3]	. . .	5.4	3.0	–5.8	.3	.3	.0	–.5	.7	.2	.8
Durable	. . .	8.0	7.2	–7.9	1.8	1.6	.0	–.6	1.4	1.5	1.0
Measures excluding selected high-technology industries and motor vehicles and parts											
Total industry	. . .	1.5	.1	–5.1	–.2	–1.1	–.1	–.2	.5	–.5	.1
Manufacturing[3]	. . .	1.5	–.7	–5.5	–.9	–1.1	–.1	–.3	.5	–.5	.5
Measures of non-energy material inputs to											
Finished processors	. . .	15.4	8.1	–7.4	5.0	2.6	1.7	.1	.5	.4	1.9
Semifinished and primary processors	. . .	4.1	–3.3	–5.8	1.2	–1.6	–.2	–.2	.1	–.1	.5
Stage-of-process groups											
Crude	. . .	1.6	–2.8	–2.8	–.8	–.5	–.9	.4	.9	–.5	.5
Primary and semifinished	. . .	7.5	2.7	–6.3	3.0	.0	.4	–.7	–.4	–.5	.6
Finished	. . .	2.3	3.0	–4.4	–.3	.5	–.3	–.3	1.3	.7	–.3

NOTE. Estimates for the third quarter of 2003 are subject to further revision in the upcoming monthly releases.

1. Rates of change are calculated as the percent change in the seasonally adjusted index from the fourth quarter of the previous year to the fourth quarter of the year specified in the column heading. For 2003, the rates are calculated from the fourth quarter of 2002 to the third quarter of 2003 and are annualized.

2. North American Industry Classification System.

3. See footnote 3 to table A.3.

. . . Not applicable.

A.5. Capacity utilization rates, by industry group, 1972–2003

Item	NAICS code[1]	Revised rate (percent of capacity, seasonally adjusted)						Difference between rates: revised minus earlier (percentage points)		
		1972–2002 avg.	1988–89 high	1990–91 low	2001:Q4	2002:Q4	2003:Q3	2001:Q4	2002:Q4	2003:Q3
Total industry	. . .	**81.3**	**85.2**	**78.6**	**75.4**	**75.2**	**74.6**	**.3**	**–.1**	**.0**
Manufacturing[2]	. . .	80.2	85.6	77.2	73.5	73.5	73.2	.2	.0	.3
Manufacturing (NAICS)	31–33	80.0	85.5	77.0	73.2	73.2	72.6	.3	.2	.3
Durable manufacturing	. . .	78.5	84.5	73.4	70.3	70.5	70.1	.3	.8	.9
Wood products	321	80.4	88.8	73.0	74.1	73.4	73.9	.6	.9	2.0
Nonmetallic mineral products	327	79.4	85.7	72.1	76.3	77.9	77.7	–4.0	–3.5	–2.7
Primary metal	331	81.0	95.3	75.2	73.5	77.1	73.2	.5	–.4	1.1
Fabricated metal products	332	77.2	80.3	71.1	70.2	69.7	67.2	–.4	–1.1	–1.1
Machinery	333	79.8	84.6	72.8	66.5	66.7	67.6	–.8	.0	–.3
Computer and electronic products	334	79.5	81.1	76.3	64.4	63.1	65.2	.3	.8	1.0
Electrical equipment, appliances, and components	335	83.2	87.4	75.0	74.8	74.1	73.4	–1.1	–1.4	–.6
Motor vehicles and parts	3361–3	77.6	89.7	56.5	75.4	81.3	80.7	.2	.4	.6
Aerospace and miscellaneous transportation equipment	3364–9	73.2	88.9	81.9	70.8	64.3	63.9	5.5	5.6	4.6
Furniture and related products	337	79.2	84.0	67.9	71.7	71.1	69.5	.3	1.0	2.1
Miscellaneous	339	76.9	81.7	77.7	74.3	76.7	75.7	–.4	2.0	3.2
Nondurable manufacturing	. . .	82.2	87.0	81.8	77.1	76.7	76.1	.1	–.8	–.6
Food, beverage, and tobacco products	311,2	82.3	85.5	81.3	79.6	77.3	77.2	.6	–1.3	–.9
Textile and product mills	313,4	83.7	91.4	77.2	74.1	74.9	70.4	2.2	1.8	1.8
Apparel and leather	315,6	80.1	84.2	77.3	64.6	67.2	61.9	–.9	4.0	4.6
Paper	322	88.4	93.7	85.2	80.8	84.9	83.4	–.2	.7	.2
Printing and support	323	84.7	91.6	82.7	75.5	74.4	71.9	–.7	–6.5	–4.7
Petroleum and coal products	324	86.3	88.9	82.5	87.2	88.1	87.9	–1.4	–.8	.1
Chemical	325	78.6	85.6	80.8	74.0	72.9	72.9	–.7	–.8	–1.4
Plastics and rubber products	326	83.8	91.3	77.2	77.2	79.5	79.9	1.3	.1	.1
Other manufacturing (non-NAICS)	1133,5111	83.7	90.7	79.1	79.4	78.9	82.4	–2.5	–3.5	–1.0
Mining	21	86.9	85.6	83.4	86.9	84.6	85.0	.3	–.5	.2
Utilities	2211,2	87.0	92.8	84.1	86.7	87.2	83.0	1.7	1.2	–.4
Selected high-technology industries	. . .	79.2	79.9	74.5	62.9	61.7	65.2	–.2	–.4	.5
Computers and office equipment	3341	78.4	79.3	67.2	68.6	71.6	70.4	–.1	–5.5	–11.1
Communications equipment	3342	78.6	81.7	73.2	58.8	48.2	50.2	–1.9	–1.6	.9
Semiconductors and related electronic components	334412-9	81.0	80.5	78.1	63.4	66.7	73.4	.2	–.3	2.6
Measures excluding selected high-technology industries										
Total industry	. . .	81.4	85.6	78.8	76.4	76.3	75.7	.1	–.5	–.2
Manufacturing[2]	. . .	80.2	86.1	77.3	74.5	74.6	74.2	.0	–.4	.0
Stage-of-process groups										
Crude	. . .	86.4	88.5	84.7	83.8	83.1	83.7	.8	.0	1.1
Primary and semifinished	. . .	82.4	86.4	77.5	76.3	77.5	76.5	.1	–.4	–.1
Finished	. . .	78.4	83.2	77.2	72.6	71.1	70.8	.6	.5	.2

NOTE. Estimates for the third quarter of 2003 are subject to further revision in the upcoming monthly releases.

1. North American Industry Classification System.

2. See footnote 3 to table A.3.

. . . Not applicable.

A.6. Rates of change in capacity, by industry group, 1999–2003[1]

Industry group	Revised rate of change (percent)					Difference between rates of change: revised minus earlier (percentage points)				
	1999	2000	2001	2002	2003	1999	2000	2001	2002	2003
Total industry	**4.4**	**4.1**	**2.3**	**1.6**	**1.1**	**.2**	**–.2**	**–.1**	**.5**	**.0**
Manufacturing[2]	5.0	4.8	2.2	1.1	1.0	.2	–.1	–.2	.3	.2
Durable	7.5	8.3	4.7	2.6	2.5	.1	.0	.1	.4	.4
Nondurable	2.2	.9	–.4	–.4	–.7	.3	–.3	–.4	.2	–.2
Other manufacturing (non-NAICS)	.7	–.3	–1.0	–1.5	–1.5	.8	.6	.5	.7	–.2
Mining	–2.8	–1.2	2.7	.3	–.5	–.2	–.8	.5	.5	–.9
Utilities	1.9	2.5	3.7	6.0	4.4	.6	–.4	–.4	–.5	–.6
Selected high-technology industries	27.8	42.3	24.9	17.6	11.8	–.7	1.9	1.7	8.9	2.0
Manufacturing except selected high-technology industries[2]	2.6	1.2	.4	–.1	–.2	.3	–.3	.0	.0	–.4
Stage-of-process groups										
Crude	–2.1	–1.3	1.2	–.3	–1.1	.1	–.9	.4	.3	–1.0
Primary and semifinished	5.5	5.1	2.8	1.8	1.8	.5	–.5	–.3	.1	.3
Finished	4.3	4.3	1.8	1.7	.8	–.1	.2	–.2	.7	.1

1. Rates of change are calculated as the percent change in the seasonally adjusted index from the fourth quarter of the previous year to the fourth quarter of the year specified in the column heading.

2. See footnote 3 to table A.3.

A.7. Rates of change in electric power use, by industry group, 1999–2003[1]

Industry group	Revised rate of change (percent)					Difference between rates of change: revised minus earlier (percentage points)				
	1999	2000	2001	2002	2003	1999	2000	2001	2002	2003
Total industry	**2.2**	**1.0**	**–7.7**	**.5**	**–5.8**	**1.1**	**3.0**	**1.6**	**–.2**	**1.5**
Manufacturing[2]	2.6	1.2	–8.0	.9	–5.8	1.2	3.2	1.7	–.2	1.8
Durable	3.0	–.1	–8.3	2.2	–7.1	1.3	3.2	1.9	–.8	2.7
Nondurable	2.2	2.4	–7.9	–.1	–4.8	1.2	3.3	1.6	.2	1.0
Other manufacturing (non-NAICS)	–.4	–.5	–6.8	–2.3	.3	.7	–2.2	–.2	–.8	–4.0
Mining	–3.1	–2.7	–3.2	–4.7	–5.2	.0	–.1	.1	.1	–2.8
Total excluding nuclear nondefense	2.3	.2	–6.7	.4	–5.8	1.1	3.2	1.6	–.4	1.9
Utility sales to industry	1.9	.6	–8.5	.4	–6.3	1.0	2.9	1.5	–.5	3.3
Industrial generation	5.9	9.1	.2	2.1	–1.8	1.2	3.8	1.9	1.5	2.6

NOTE. Estimates for the third quarter of 2003 are subject to further revision in the upcoming monthly releases.

1. Rates of change are calculated as the percent change in the seasonally adjusted index from the fourth quarter of the previous year to the fourth quarter of the year specified in the column heading. For 2003, the rates are calculated from the fourth quarter of 2002 to the second quarter of 2003 and are annualized.

2. See footnote 3 to table A.3.

A.8. Annual proportion in industrial production, by market groups and industry groups, 1995–2002

Item	NAICS code[1]	1995	1996	1997	1998	1999	2000	2001	2002
Total industry	...	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
MARKET GROUPS									
Final products and nonindustrial supplies	...	56.0	56.4	56.9	58.2	57.7	57.7	59.3	58.9
Consumer goods	...	27.6	27.7	27.6	28.1	28.3	28.6	30.3	31.1
Durable	...	7.6	7.8	7.9	7.9	8.0	7.9	7.8	8.1
Automotive products	...	3.4	3.6	3.7	3.7	3.9	3.7	3.7	4.0
Home electronics	...	.4	.4	.4	.4	.4	.4	.3	.3
Appliances, furniture, carpeting	...	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Miscellaneous goods	...	2.4	2.4	2.4	2.4	2.4	2.3	2.3	2.3
Nondurable	...	20.0	19.9	19.7	20.2	20.2	20.7	22.5	23.0
Non-energy	...	16.4	16.3	16.4	16.9	16.7	16.9	18.4	18.6
Foods and tobacco	...	8.8	8.7	8.8	9.2	9.2	9.4	10.2	10.4
Clothing	...	1.9	1.8	1.6	1.5	1.3	1.2	1.1	1.0
Chemical products	...	3.6	3.7	3.7	3.8	3.8	3.9	4.5	4.6
Paper products	...	1.7	1.7	1.8	1.9	1.9	2.0	2.1	2.1
Energy	...	3.6	3.7	3.4	3.2	3.5	3.8	4.1	4.4
Business equipment	...	10.9	11.2	11.8	12.3	11.9	11.7	11.1	10.0
Transit	...	1.8	1.8	2.0	2.4	2.3	2.0	2.0	1.7
Information processing	...	3.5	3.7	4.0	4.1	4.1	4.1	3.8	3.2
Industrial and other	...	5.6	5.7	5.8	5.8	5.5	5.6	5.4	5.1
Defense and space equipment	...	2.1	2.0	1.9	1.9	1.8	1.5	1.9	1.9
Construction supplies	...	4.0	4.1	4.1	4.3	4.3	4.3	4.3	4.3
Business supplies	...	11.1	11.0	11.1	11.1	11.1	11.2	11.2	11.2
Materials	...	44.0	43.6	43.1	41.8	42.3	42.3	40.7	41.1
Non-energy	...	34.0	33.4	33.8	33.3	33.2	32.3	30.7	30.5
Durable	...	21.2	21.4	21.7	21.5	21.4	20.9	19.5	19.1
Consumer parts	...	4.1	4.1	4.2	4.2	4.4	4.1	3.8	4.0
Equipment parts	...	8.0	8.1	8.3	8.2	8.1	8.1	7.3	6.7
Other	...	9.1	9.1	9.2	9.1	9.0	8.6	8.4	8.4
Nondurable	...	12.8	12.1	12.1	11.9	11.7	11.4	11.2	11.3
Textile	...	1.1	1.1	1.1	1.0	1.0	.9	.8	.8
Paper	...	3.3	3.0	2.9	2.8	2.9	2.8	2.8	2.7
Chemical	...	5.0	4.8	4.9	4.6	4.5	4.3	4.1	4.2
Energy	...	9.9	10.2	9.3	8.5	9.2	10.1	10.0	10.6
INDUSTRY GROUPS									
Manufacturing[2]	...	84.5	84.4	85.7	86.6	85.9	84.6	84.1	83.5
Manufacturing (NAICS)	31–33	80.4	80.2	81.2	81.8	81.1	79.7	79.1	78.4
Durable manufacturing	...	44.8	45.5	46.5	47.1	46.6	45.5	43.8	42.6
Wood products	321	1.5	1.5	1.5	1.5	1.6	1.4	1.4	1.4
Nonmetallic mineral products	327	2.1	2.2	2.2	2.3	2.3	2.3	2.3	2.3
Primary metal	331	3.0	3.0	3.1	3.0	2.8	2.5	2.3	2.2
Fabricated metal products	332	5.8	6.0	6.1	6.1	6.0	6.1	6.0	5.9
Machinery	333	6.2	6.2	6.2	6.2	5.8	6.0	5.6	5.2
Computer and electronic products	334	9.7	9.9	10.4	10.3	10.3	10.3	9.0	8.1
Electrical equipment, appliances, and components	335	2.6	2.6	2.6	2.6	2.5	2.5	2.4	2.3
Motor vehicles and parts	3361–3	6.4	6.5	6.7	6.6	7.0	6.6	6.2	6.7
Aerospace and miscellaneous transportation equipment	3364–9	3.3	3.2	3.5	4.1	3.8	3.3	3.8	3.6
Furniture and related products	337	1.4	1.5	1.6	1.7	1.7	1.7	1.7	1.7
Miscellaneous	339	2.7	2.8	2.8	2.8	2.8	2.9	3.1	3.2
Nondurable manufacturing	...	35.6	34.7	34.8	34.7	34.4	34.2	35.3	35.8
Food, beverage, and tobacco products	311,2	10.3	10.1	10.1	10.6	10.5	10.7	11.7	11.9
Textile and product mills	313,4	1.7	1.7	1.7	1.6	1.5	1.4	1.3	1.3
Apparel and leather	315,6	2.0	1.9	1.8	1.6	1.4	1.3	1.2	1.1
Paper	322	3.7	3.3	3.2	3.2	3.2	3.2	3.1	3.1
Printing and support	323	2.7	2.7	2.7	2.6	2.6	2.6	2.6	2.5
Petroleum and coal products	324	1.5	1.6	1.6	1.5	1.8	1.9	2.0	2.2
Chemical	325	10.1	10.0	10.1	9.9	9.6	9.4	9.7	10.0
Plastics and rubber products	326	3.6	3.6	3.7	3.7	3.8	3.7	3.7	3.8
Other manufacturing (non-NAICS)	1133,5111	4.1	4.1	4.4	4.7	4.8	4.9	5.1	5.1
Mining	21	5.7	6.1	5.4	4.8	5.6	6.5	6.5	6.8
Utilities	2211,2	9.8	9.6	9.0	8.6	8.5	8.9	9.4	9.8
Electric	2211	8.3	8.1	7.6	7.4	7.3	7.5	8.0	8.3
Natural gas	2212	1.5	1.4	1.3	1.2	1.2	1.4	1.4	1.5

NOTE. The IP proportion data are estimates of the industries' relative contributions to the overall IP change between the reference year and the following year. For example, a 1 percent increase in durable goods manufacturing between 2002 and 2003 would account for a 0.426 percent increase in total IP.

1. North American Industry Classification System.
2. See footnote 3 to table A.3.
. . . Not applicable.

Report on the Condition of the U.S. Banking Industry: Third Quarter, 2003

Beginning with this issue, the *Federal Reserve Bulletin* will include a new quarterly report summarizing the condition of the banking industry from its broadest perspective, that of the bank holding company. The report presents financial and nonfinancial data drawn primarily from regulatory filings with the Federal Reserve, along with a brief summary of key developments.

Bank holding companies gained prominence after the passage of the Bank Holding Company Act of 1956 and have helped enhance the efficiency of the U.S. banking system in a manner consistent with protecting the federal safety net and the financial system. The specific opportunities and restrictions faced by bank holding companies have evolved considerably over the years, largely in response to changing market forces. By owning banks, and in some cases nonbanking subsidiaries, bank holding companies have long been able to conduct a broad range of banking and nonbanking activities in a broad range of geographic markets. They currently control 97 percent of commercial banking assets in the United States—roughly $7.0 trillion. Increasingly, bank holding companies have responded to the growing integration of markets for financial services by linking banking and nonbanking activities into larger and more diverse financial enterprises. As a result, bank holding companies now control another $2.0 trillion in nonbanking financial services assets. Net of intercompany claims, bank holding company assets totaled $8.7 trillion at the end of September 2003. With nearly $700 billion in equity, bank holding companies are able to mobilize capital in financial markets to support both banking and nonbanking operations. The bank holding company structure has also allowed institutions to call upon a broad array of deposit and nondeposit funding sources.

Development of this new report reflects both the Federal Reserve's perspective as the supervisor of bank holding companies in the United States and its broader interest in the overall soundness and stability of the U.S. financial system. The report also responds to frequent public requests for aggregate data on bank holding companies, in particular for large institutions.

THE DATA

This new report presents aggregate time-series data drawn primarily from regulatory reports submitted to the Federal Reserve each quarter by individual bank holding companies (the FR Y-9C and the FR Y-9LP). The data exclude smaller bank holding companies, generally those with consolidated assets less than $150 million, that are not obliged to file these reports. For those institutions with a multitiered structure, only the top-tier bank holding company is included to avoid double-counting.

Data in the tables provide information for three groups of reporting bank holding companies:

- Financial Characteristics of All Reporting Bank Holding Companies (table 1) presents data for the overall population of bank holding companies that is required to file regulatory reports, that is, all but the smallest bank holding companies.
- Financial Characteristics of Fifty Large Bank Holding Companies (table 2) describes the condition of the largest institutions within the overall population.
- Financial Characteristics of All Other Reporting Bank Holding Companies (table 3) summarizes the condition of smaller reporting bank holding companies.

The data for the fifty large bank holding companies—at both the institutional and aggregate level—have been analyzed internally at the Federal Reserve for many years as part of its ongoing supervisory monitoring processes. Experience with this analysis suggests that sole reliance on the raw information from regulatory reports can have certain significant drawbacks. In particular, trends and developments can be obscured by transitory changes in the panel of large institutions, by large mergers or divestitures, and by significant restatements of published historical financial results without corresponding amendments to regulatory reports. To address these shortcomings, although the basic information used to generate these internal data is drawn from regulatory reports, the data in table 2 are presented on a *fixed-panel, merger-adjusted*, and *as-restated* basis:

• The data presented in this table are for the same fifty institutions across all periods covered by the report. These institutions are, by and large, the fifty largest companies in terms of consolidated assets as of the most recent period shown. This group excludes a few large bank holding companies at which banking operations account for only a small portion of assets and earnings, because these institutions have different financial characteristics that would distort the aggregates.[1]

• In order to present data for the same institutions over time, the underlying data for historical periods are merger-adjusted to include the fifty large bank holding companies as they existed during those periods as well as entities that subsequently merged with them. The merger adjustments are generally made by combining the information for predecessor institutions regardless of the accounting treatment applied to the transactions, although in some cases other information is required. Large divestitures have also been incorporated into this data.

• The data used to generate table 2 reflect revisions and restatements to public financial statements for those fifty institutions that have not necessarily been captured by regulatory reports.[2] When available, restatements that present financial results for historical periods on a merger-adjusted basis were used in lieu of simply combining historical data.

This approach to presenting data for the fifty large bank holding companies has ramifications for the data for "all reporting companies" and "all other reporting companies." Merger adjustments and restatements have had little effect on the aggregate information for "all" companies, in part because most mergers and acquisitions have involved other bank holding companies; the most significant effects were for 1998 and 1999, for which these adjustments increased the total assets of all reporting bank holding companies about 1.7 percent. The data for "all other" companies excludes historical data for those bank holding companies that were predecessors to the current panel of fifty large companies and thus were added to the totals for that group. Mergers and changes in the panel of fifty large companies have more pronounced effects for data for the fifty large companies and "all other" companies than for the total population, primarily because the merger adjustments have the effect of moving institutions from one panel into the other.

The data for "all other" reporting bank holding companies exclude not only the fifty large companies and their predecessors but also the handful of large bank holding companies whose banking operations represent only a small component of the overall enterprise. Excluding the latter companies from the "all other" group allows table 3 to provide a clearer picture of developments at smaller institutions.[3]

Financial Characteristics

Using these data, the first three tables display principal balance sheet, off-balance-sheet, and income statement items, along with key financial ratios for each of the three groups of bank holding companies. Taken together, the line items describe the condition of the industry from a longer-term and more aggregate perspective than, for example, an investment analyst focused on near-term returns might provide. The financial ratios have been chosen from a broader set of conventional indicators used by supervisors and others to assess the condition of banking organizations. The ratios have been calculated for the aggregates and thus represent overall measures rather than averages (unweighted) of ratios for individual bank holding companies.[4]

1. The composition of the panel is revisited each spring to address changes in the asset-size rankings, and more frequently as necessary to maintain a full panel of fifty institutions when mergers occur between institutions already in the panel.

2. The Federal Reserve may require a bank holding company to file amended regulatory reports under certain circumstances, including instances in which there are differences in interpretation of generally accepted accounting principles (GAAP), if previous reports contained significant errors, or if restatements occur as a result of internal or external audits. Institutions may also choose to submit revised reports for earlier historical periods, if they restate their financial results for any reason.

3. Because neither table 2 nor table 3 includes the few large bank holding companies whose commercial banking operations represent a small part of consolidated operations, the figures reported in these two tables sum to something less than the total figures presented in table 1.

4. The manner in which these ratios are calculated may differ slightly from conventions used in the Bank Holding Company Performance Report (BHCPR). In general, these differences arise because information in tables 1, 2, and 3 incorporates data from published financial statements as well as regulatory filings with the Federal Reserve.

NONFINANCIAL CHARACTERISTICS

Nonfinancial characteristics of all reporting bank holding companies (table 4) reports key information on several other areas, including the structure, range of activities, and ownership of reporting bank holding companies. The data in table 4 do not incorporate merger adjustments or restatements; indeed, such items are rarely included in published financial statements.

Structure and Financial Holding Company Status

Table 4 displays the number and total assets of those reporting bank holding companies that qualify as financial holding companies under the Gramm–Leach–Bliley Act.[5] As of the end of September 2003, some 457 bank holding companies qualified as financial holding companies, accounting for more than 80 percent of the assets of all reporting bank holding companies. These figures include eleven institutions that are majority-owned by foreign entities, comprising 10 percent of the indicated financial holding company assets and 8 percent of total bank holding company assets.

Glossary of Ratios

Financial ratio	Importance and derivation
Return on average equity and return on average assets	Measures the rate of profitability (net income) relative to the average size of the bank holding company as stated in the balance sheet and the book value of the owners' interest, respectively, annually adjusted.
Net interest margin	Measures the net return on direct, financial intermediation activities—that is, interest income earned on interest-bearing assets of the bank holding company minus interest expense paid on its interest-bearing liabilities—as a percentage of average interest bearing assets, annually adjusted. Because some assets have preferred treatment under tax law, the net interest margin is presented on a fully taxable-equivalent basis.
Efficiency ratio	Measures the non-interest expense needed to generate each dollar of revenue, where the latter is measured as the sum of net interest income and non-interest income. Nonrecurring income and expense items are excluded from this ratio.
Net charge-offs to loans	Measures the overall rate of credit losses incurred during the period, showing loan losses (net of any recoveries) as a percentage of average loans for the period, annually adjusted.
Nonperforming assets as a percentage of loans and related assets	Measures the portion of the loan portfolio for which there is significant risk of credit loss, showing nonperforming assets (non-accrual assets, loans restructured at preferential terms, and foreclosed real estate or other assets) as a percentage of loans and foreclosed assets.
Loans to deposits	Measures the extent to which loans, the least liquid of earning assets, are funded with bank deposits. Bank deposits are considered a more stable source of funding than nondeposit funding categories.
Regulatory capital ratios	Tier 1 risk-based capital ratio, showing qualifying capital items as a percentage of risk-weighted assets.
	Total risk-based capital ratio, showing a broader set of qualifying capital items, including a portion of the allowance for credit losses, certain subordinated debt, and similar items as a percentage of risk-weighted assets.
	Leverage ratio, showing qualifying tier 1 capital as a percentage of average (unweighted) assets for the quarter.

Banking and Nonbanking Activities

As a measure of the volume of banking activities at these bank holding companies, table 4 reports the total assets of insured commercial banks in the United States owned by bank holding companies. These statistics identify separately the assets of banks that are owned by reporting bank holding companies (those bank holding companies included in the figures reported in table 1, generally those with consolidated assets exceeding $150 million), those owned by smaller bank holding companies (bank holding companies not required to provide consolidated financial information in regulatory filings), and those commercial banks not affiliated with a bank holding company (independent banks). As of the end of September 2003, more than 97 percent of commercial banking assets were owned by reporting bank holding companies.

Assets associated with nonbanking activities, and the number of bank holding companies reporting such assets, provide a view of the degree of diversification in bank holding company activities. They are best understood as broad indications rather than precise measures because, following the conventions of the regulatory reports filed with the Federal Reserve, the line items are not strictly comparable across activities. For three of the activities ("thrift institutions," "foreign nonbank institutions," and "other nonbank institutions"), the assets shown are those of the nonbank subsidiaries of bank holding companies conducting the respective activity. For the remaining two activities ("insurance" and "securities broker–dealers"), the figures represent the total assets associated with the activity as drawn directly from the bank holding company's consolidated balance sheet.

5. In addition to reporting bank holding companies, other types of entities can qualify for financial holding company status, including small (nonreporting) bank holding companies and foreign banking organizations. As of December 2002, about 190 such institutions qualified as financial holding companies.

Assets associated with nonbanking activities have experienced some volatility over the period shown, sometimes influenced by a large single transaction or change in legal status. For example, the aggregate assets of thrift subsidiaries were affected significantly ($37 billion) by the conversion of Charter One's thrift subsidiary to a commercial bank in the second quarter of 2002 and the acquisition by Citigroup of a large thrift institution (Golden State Bancorp, with assets of $55 billion) in the fourth quarter of 2002.

Foreign Ownership

Table 4 also presents information on the number and total assets of foreign-owned U.S. bank holding companies. As of the end of September 2003, there were twenty-eight such companies controlling roughly $950 billion of total assets. These data include the foreign-owned financial bank holding companies reported above in table 4, but do not include U.S. branches and agencies of foreign institutions.

Other Data

Total employment at reporting bank holding companies, shown on a full-time-equivalent basis, provides a point of reference both for analyzing trends in productivity and for comparing growth in the banking industry with that experienced by other sectors of the economy.

To provide an indication of whether large institutions have accounted for a growing proportion of the industry's assets over time, table 4 shows both the combined assets of the current set of fifty large institutions (as shown in table 2) with the combined assets of the institutions that would have been the fifty large institutions *at each historical point in time, and as they existed at that time.* Large differences in these total asset figures for each period result primarily from mergers or acquisitions by the largest bank holding companies.

As an aid to analyzing these figures, table 4 reports the proportion of total assets at all reporting bank holding companies that were controlled by each "historical point in time" set of fifty large institutions. Overall there is evidence that the proportion of assets controlled by the fifty large institutions has declined modestly in recent years. For example, at year-end 1998 the then-current panel of fifty large institutions controlled 78 percent of the assets of reporting bank holding company assets, although the current panel (as of the end of September 2003) represented a little more than 76 percent. Had current ownership patterns been in place in 1998, however, the large institutions would have controlled a larger share of total assets—nearly 82 percent—rather than the 78 percent shown in the table for that period.

Summary of Current Developments

Integral to this new quarterly report is a brief commentary on the most recent data, key industry developments, and current industry conditions from the perspective of a central banker and bank supervisor.

U.S. Banking Industry Developments in the Third Quarter 2003

Assets of all reporting bank holding companies grew only slightly ($22 billion, or 0.3 percent) during the quarter ending on September 30, 2003. This result follows five consecutive quarters with growth of at least 2 percent and an increase of more than 6 percent in the second quarter of 2003. Institutions continued to acquire loans, residential mortgage loans in particular, at a pace more than sufficient to offset continued declines in commercial and industrial loans. Unused commitments to lend rose $124 billion, twice the pace of $40 billion to $60 billion per quarter seen since the beginning of 2002.

The modest pace of asset growth was influenced significantly by declines in holdings of securities and other earning assets, which fell $39 billion (1.2 percent) in the third quarter. Declines occurred primarily in longer-maturity and mortgage-backed securities. The notional value of derivatives contracts held by bank holding companies, most of which are contracts tied to changes in interest rates, rose a comparatively small amount (about $1.2 trillion, or 1.7 percent) during the quarter.

Deposits overall did not grow in the third quarter, although declines in demand deposit accounts were offset by continued strong growth in interest-bearing consumer deposits. Partly because of slower deposit growth, the ratio of loans to deposits—one conventional indicator of bank liquidity—has increased materially since March 2003, after declining steadily for more than a year.

Earnings remained strong by historical standards. Net income of reporting bank holding companies totaled $27.3 billion in the third quarter, for a return on average assets of 1.26 percent and a return on common equity of 16.46 percent, both at annualized rates. Bank holding companies reduced their provisions for loan losses to $7.1 billion, down substantially from the $11.1 billion recorded a year earlier, as asset quality and the rate of net charge-offs improved. Net interest income grew with the rise in interest-bearing assets, but the net interest margin—the rate of pretax profitability on earning assets, net of funding costs—continued to contract. Gains realized on the sale of investment securities fell to about $0.1 billion. Such gains had contributed $8.1 billion to pretax earnings over the previous four quarters, including $2.6 billion in the second quarter of 2003. Non-interest income rose only slightly, and non-interest expense increased about $1 billion. Efficiency, measured as operating revenue per dollar of expense, nonetheless improved slightly.

Regulatory risk-based capital ratios improved in the quarter, continuing a modest upward trend since early 2002. The leverage ratio has remained within a narrow band around 6.75 percent over this period.

1. Financial characteristics of all reporting bank holding companies in the United States

Millions of dollars, except as noted, not seasonally adjusted

Account or ratio[1, 2]	1998	1999	2000	2001	2002	2002				2003		
						Q1	Q2	Q3	Q4	Q1	Q2	Q3
Balance sheet												
Total assets	**5,697,652**	**6,203,489**	**6,682,174**	**7,437,596**	**7,928,334**	**7,451,594**	**7,622,211**	**7,774,589**	**7,928,334**	**8,163,880**	**8,659,585**	**8,681,392**
Loans	3,113,858	3,381,185	3,693,932	3,800,969	4,041,486	3,789,784	3,828,071	3,908,876	4,041,486	4,109,280	4,261,743	4,330,285
Securities and money market	1,902,230	2,075,522	2,177,612	2,554,072	2,845,886	2,652,269	2,761,633	2,847,792	2,845,886	2,999,458	3,207,324	3,167,860
Allowance for loan losses	−54,588	−55,958	−60,424	−68,506	−73,576	−70,395	−70,898	−71,990	−73,576	−73,430	−73,689	−72,935
Other	736,152	802,740	871,053	1,151,062	1,114,538	1,079,937	1,103,405	1,089,912	1,114,538	1,128,572	1,264,207	1,256,183
Total liabilities	**5,261,842**	**5,740,507**	**6,170,537**	**6,856,758**	**7,294,029**	**6,860,537**	**7,011,607**	**7,154,781**	**7,294,029**	**7,515,262**	**7,986,903**	**8,002,034**
Deposits	3,357,625	3,500,705	3,748,468	4,001,377	4,326,601	3,976,428	4,050,023	4,157,680	4,326,601	4,420,203	4,565,966	4,567,312
Borrowings	1,474,684	1,762,963	1,964,881	2,057,603	2,221,052	2,121,082	2,176,897	2,260,184	2,221,052	2,311,501	2,504,690	2,532,945
Other[3]	429,533	476,839	457,188	797,778	746,376	763,027	784,687	736,918	746,376	783,559	916,247	901,777
Total equity	**435,810**	**462,981**	**511,637**	**580,838**	**634,304**	**591,056**	**610,604**	**619,808**	**634,304**	**648,619**	**672,682**	**679,358**
Off-balance-sheet												
Unused commitments to lend[4]	2,755,975	3,016,346	3,216,547	3,394,101	3,558,787	3,395,525	3,457,688	3,518,506	3,558,787	3,620,450	3,656,787	3,780,873
Securitizations outstanding[5]	n.a.	n.a.	n.a.	276,717	295,001	274,727	282,556	287,846	295,001	298,258	285,290	290,332
Derivatives (notional value, billions)[6]	37,050	37,786	43,483	48,261	57,734	49,548	52,614	55,464	57,734	63,993	68,222	69,412
Income statement												
Net income[7]	59,076	76,649	71,994	65,385	84,875	22,995	21,424	21,575	18,886	24,617	26,377	27,273
Net interest income	175,711	187,143	194,950	221,442	242,656	60,135	60,773	60,083	61,666	62,210	63,157	63,763
Provisions for loan losses	27,586	20,067	26,859	39,522	42,922	9,860	10,372	11,149	11,541	8,573	8,429	7,102
Non-interest income	145,330	173,012	195,943	214,163	216,785	52,980	52,853	53,830	57,121	57,403	61,969	62,130
Non-interest expense	211,226	224,044	253,076	297,140	292,423	70,341	71,312	71,574	79,178	74,384	77,760	78,601
Security gains or losses	5,438	3,114	−580	4,294	4,549	520	467	1,936	1,672	1,848	2,669	123
Ratios (percent)												
Return on average equity	13.64	17.50	15.13	11.79	14.12	15.77	14.29	14.24	12.27	15.59	16.24	16.46
Return on average assets	1.03	1.30	1.12	.91	1.11	1.23	1.13	1.12	.95	1.22	1.26	1.26
Net interest margin[8]	3.61	3.72	3.57	3.59	3.72	3.80	3.77	3.68	3.64	3.57	3.48	3.41
Efficiency ratio[7]	62.72	60.88	62.57	65.75	62.39	61.02	62.14	62.72	65.53	62.19	62.62	62.45
Nonperforming assets to loans and related assets	.88	.84	1.07	1.45	1.45	1.51	1.53	1.55	1.45	1.44	1.34	1.23
Net charge-offs to average loans	.56	.54	.65	.89	1.02	.94	1.01	1.09	1.04	.84	.80	.75
Loans to deposits	92.74	96.59	98.55	94.99	93.41	95.31	94.52	94.02	93.41	92.97	93.34	94.81
Regulatory capital ratios												
Tier 1 risk-based	8.90	8.78	8.81	8.91	9.22	9.23	9.30	9.33	9.22	9.33	9.33	9.50
Total risk-based	12.09	11.71	11.78	11.91	12.30	12.28	12.35	12.38	12.30	12.43	12.35	12.51
Leverage	6.91	7.00	6.80	6.65	6.69	6.82	6.84	6.79	6.69	6.72	6.75	6.73
Number of reporting bank holding companies	1,544	1,647	1,727	1,842	1,979	1,884	1,907	1,946	1,979	2,036	2,064	2,099

Footnotes appear on p. 54.

2. Financial characteristics of fifty large bank holding companies in the United States

Millions of dollars, except as noted, not seasonally adjusted

Account or ratio[2, 9]	1998	1999	2000	2001	2002	2002				2003		
						Q1	Q2	Q3	Q4	Q1	Q2	Q3
Balance sheet												
Total assets	**4,659,300**	**5,036,242**	**5,403,677**	**5,744,978**	**6,064,763**	**5,745,176**	**5,876,226**	**5,967,990**	**6,064,763**	**6,218,488**	**6,587,358**	**6,602,255**
Loans	2,491,066	2,642,645	2,874,605	2,878,582	3,044,217	2,867,961	2,884,545	2,937,869	3,044,217	3,076,496	3,169,051	3,222,303
Securities and money market	1,565,234	1,739,572	1,818,384	2,009,620	2,219,849	2,091,269	2,185,677	2,242,620	2,219,849	2,330,538	2,491,611	2,463,266
Allowance for loan losses	−45,405	−45,676	−48,886	−55,705	−59,304	−57,256	−57,451	−58,089	−59,304	−58,811	−58,671	−57,738
Other	648,405	699,701	759,574	912,480	860,002	843,202	863,455	845,589	860,002	870,265	985,367	974,423
Total liabilities	**4,315,619**	**4,672,539**	**5,002,366**	**5,309,929**	**5,595,206**	**5,301,457**	**5,420,451**	**5,508,907**	**5,595,206**	**5,740,910**	**6,094,577**	**6,103,322**
Deposits	2,547,090	2,635,918	2,795,936	2,966,151	3,191,827	2,928,301	2,978,617	3,049,852	3,191,827	3,247,658	3,360,811	3,353,428
Borrowings	1,359,006	1,586,963	1,777,223	1,821,140	1,958,071	1,888,772	1,937,981	2,014,019	1,958,071	2,023,682	2,161,137	2,188,266
Other[3]	409,523	449,657	429,207	522,638	445,308	484,384	503,853	445,037	445,308	469,571	572,628	561,629
Total equity	**343,680**	**363,703**	**401,310**	**435,049**	**469,557**	**443,719**	**455,776**	**459,083**	**469,557**	**477,579**	**492,782**	**498,933**
Off-balance-sheet												
Unused commitments to lend[4]	2,633,035	2,870,114	3,065,766	3,228,396	3,376,837	3,225,671	3,284,565	3,335,157	3,376,837	3,428,029	3,454,070	3,574,947
Securitizations outstanding[5]	n.a.	n.a.	n.a.	269,056	279,632	264,341	270,738	274,012	279,632	280,938	271,626	274,294
Derivatives (notional value, billions)[6]	36,830	37,746	43,416	47,833	57,320	49,195	52,220	55,011	57,320	63,536	67,636	68,800
Income statement												
Net income[7]	47,920	63,666	58,740	50,209	65,774	18,396	16,662	16,589	14,132	19,196	20,488	20,898
Net interest income	137,759	144,899	149,469	160,633	176,025	44,054	44,037	42,886	45,048	44,897	45,229	46,018
Provisions for loan losses	25,057	17,173	23,163	34,434	36,981	8,441	9,041	9,660	9,839	7,438	7,198	5,871
Non-interest income	131,304	154,432	176,086	167,237	165,028	40,798	40,561	41,238	42,431	43,654	47,134	46,331
Non-interest expense	178,174	185,306	210,813	216,247	206,919	50,087	50,382	50,472	55,961	52,268	54,583	55,653
Security gains or losses	5,028	2,219	−577	4,099	4,530	550	501	1,815	1,711	1,774	2,351	−4
Ratios (percent)												
Return on average equity	14.46	18.68	15.80	12.01	14.66	16.82	14.81	14.71	12.39	16.48	17.18	17.18
Return on average assets	1.06	1.33	1.13	.89	1.11	1.27	1.14	1.13	.93	1.24	1.28	1.26
Net interest margin[8]	3.62	3.59	3.42	3.34	3.51	3.61	3.56	3.42	3.46	3.36	3.27	3.23
Efficiency ratio[7]	62.76	60.46	62.49	63.03	59.39	57.92	58.81	59.97	62.64	59.35	59.56	60.29
Nonperforming assets to loans and related assets	.90	.89	1.16	1.53	1.55	1.59	1.64	1.67	1.55	1.52	1.44	1.30
Net charge-offs to average loans	.65	.61	.74	1.03	1.19	1.09	1.20	1.29	1.21	1.01	.95	.87
Loans to deposits	97.80	100.26	102.81	97.05	95.38	97.94	96.84	96.33	95.38	94.73	94.29	96.09
Regulatory capital ratios												
Tier 1 risk-based	8.18	8.06	8.14	8.17	8.44	8.53	8.56	8.58	8.44	8.54	8.50	8.69
Total risk-based	11.63	11.29	11.42	11.55	11.93	11.98	12.01	12.05	11.93	12.05	11.93	12.11
Leverage	6.53	6.61	6.40	6.19	6.18	6.41	6.38	6.30	6.18	6.19	6.20	6.20

Footnotes appear on p. 54.

3. Financial characteristics of all other reporting bank holding companies in the United States

Millions of dollars, except as noted, not seasonally adjusted

Account or ratio[1, 10]	1998	1999	2000	2001	2002	2002				2003		
						Q1	Q2	Q3	Q4	Q1	Q2	Q3
Balance sheet												
Total assets	**1,038,352**	**1,129,948**	**1,235,593**	**1,342,168**	**1,473,676**	**1,351,276**	**1,387,618**	**1,438,498**	**1,473,676**	**1,524,324**	**1,573,027**	**1,579,127**
Loans	622,792	722,963	801,476	854,003	922,058	854,910	877,183	903,958	922,058	942,132	970,420	982,695
Securities and money market	336,996	315,986	336,210	374,251	426,518	388,488	395,584	414,560	426,518	455,722	469,932	463,122
Allowance for loan losses	−9,183	−10,085	−11,306	−12,350	−13,725	−12,634	−12,962	−13,433	−13,725	−14,133	−14,437	−14,660
Other	87,747	101,084	109,214	126,264	138,825	120,511	127,812	133,414	138,825	140,603	147,112	147,969
Total liabilities	**946,223**	**1,033,372**	**1,128,097**	**1,221,660**	**1,337,584**	**1,228,367**	**1,258,645**	**1,304,736**	**1,337,584**	**1,383,241**	**1,427,604**	**1,434,463**
Deposits	810,535	858,101	945,865	1,020,435	1,113,678	1,031,305	1,053,692	1,089,210	1,113,678	1,148,153	1,176,226	1,183,022
Borrowings	115,678	154,126	156,719	174,059	191,264	169,856	175,970	182,908	191,264	199,814	214,372	216,293
Other[3]	20,010	21,145	25,513	27,166	32,643	27,206	28,984	32,619	32,643	35,275	37,006	35,148
Total equity	**92,129**	**96,576**	**107,497**	**120,508**	**136,092**	**122,908**	**128,973**	**133,762**	**136,092**	**141,082**	**145,423**	**144,664**
Off-balance-sheet												
Unused commitments to lend[4]	122,940	134,742	142,244	157,841	173,370	160,139	163,515	173,637	173,370	182,842	190,487	193,821
Securitizations outstanding[5]	n.a.	n.a.	n.a.	4,567	4,942	4,313	4,350	4,178	4,942	4,998	5,208	5,119
Derivatives (notional value, billions)[6]	220	28	54	92	92	91	94	111	92	103	109	104
Income statement												
Net income[7]	11,156	12,777	13,173	14,449	17,471	4,333	4,313	4,546	4,279	4,688	4,916	4,773
Net interest income	37,952	41,923	45,233	47,754	52,925	12,702	13,291	13,601	13,331	13,581	13,775	13,578
Provisions for loan losses	2,529	2,798	3,552	4,599	5,246	1,172	1,194	1,394	1,486	1,051	1,137	1,087
Non-interest income	14,026	16,774	17,921	23,142	25,422	6,161	6,005	6,425	6,831	6,877	7,561	7,230
Non-interest expense	33,052	37,103	40,393	45,581	48,298	11,512	11,982	12,083	12,721	12,690	13,328	12,993
Security gains or losses	410	826	−10	796	729	117	164	263	185	301	431	130
Ratios (percent)												
Return on average equity	10.97	13.26	13.03	12.45	13.68	14.26	13.78	13.93	12.82	13.54	13.81	13.49
Return on average assets	.93	1.17	1.12	1.13	1.26	1.30	1.26	1.29	1.18	1.26	1.28	1.22
Net interest margin[8]	3.59	4.28	4.26	4.16	4.25	4.25	4.27	4.35	4.12	4.06	4.01	3.88
Efficiency ratio[7]	62.53	62.47	62.36	63.45	60.72	59.78	62.37	59.89	62.70	61.50	63.05	62.18
Nonperforming assets to loans and related assets	.80	.68	.76	.96	1.02	.99	.97	1.02	1.02	1.13	1.09	1.02
Net charge-offs to average loans	.26	.30	.32	.43	.46	.42	.42	.45	.53	.32	.37	.36
Loans to deposits	76.84	84.25	84.73	83.69	82.79	82.90	83.25	82.99	82.79	82.06	82.50	83.07
Regulatory capital ratios												
Tier 1 risk-based	12.71	12.19	11.85	12.18	12.42	12.42	12.53	12.53	12.42	12.57	12.53	12.53
Total risk-based	14.56	13.64	13.32	13.77	14.06	14.01	14.15	14.16	14.06	14.25	14.23	14.24
Leverage	8.58	8.59	8.54	8.74	8.87	8.84	8.96	8.97	8.87	8.96	8.94	8.94
Number of other reporting bank holding companies	1,450	1,569	1,661	1,786	1,923	1,828	1,851	1,890	1,923	1,980	2,008	2,043

Footnotes appear on p. 54.

4. Nonfinancial characteristics of all reporting bank holding companies in the United States

Millions of dollars, except as noted, not seasonally adjusted

Account	1998	1999	2000	2001	2002	2002				2003		
						Q1	Q2	Q3	Q4	Q1	Q2	Q3
Bank holding companies that qualify as financial holding companies[11, 12]												
Domestic												
Number	n.a.	n.a.	299	388	434	408	411	415	434	437	440	446
Total assets	n.a.	n.a.	4,494,331	5,436,691	5,916,901	5,464,392	5,643,297	5,707,041	5,916,901	6,061,528	6,433,656	6,450,389
Foreign-owned[13]												
Number	n.a.	n.a.	9	10	11	10	11	11	11	11	11	11
Total assets	n.a.	n.a.	502,506	621,442	616,254	642,143	656,344	689,804	616,254	648,017	732,695	729,244
Total U.S. commercial bank assets[14]	**5,391,206**	**5,673,702**	**6,129,534**	**6,415,909**	**6,897,447**	**6,327,268**	**6,572,090**	**6,762,780**	**6,897,447**	**7,031,480**	**7,325,659**	**7,296,533**
By ownership												
Reporting bank holding companies	4,947,929	5,226,027	5,657,210	5,942,575	6,429,738	5,862,784	6,107,717	6,296,385	6,429,738	6,578,067	6,863,642	6,845,365
Other bank holding companies	234,260	226,916	229,274	230,464	227,017	225,000	226,558	226,602	227,017	222,670	222,997	217,039
Independent banks	209,017	220,759	243,050	242,870	240,692	239,483	237,815	239,793	240,692	230,743	239,020	234,130
Assets associated with nonbanking activities[12, 15]												
Insurance	n.a.	n.a.	n.a.	426,462	350,709	381,860	386,590	338,384	350,709	360,056	384,182	398,533
Securities broker–dealers	n.a.	n.a.	n.a.	n.a.	630,851	693,080	695,814	703,738	630,851	709,839	656,919	667,512
Thrift institutions	121,640	117,699	102,218	91,170	107,422	92,954	53,938	56,063	107,422	126,375	124,640	143,578
Foreign nonbank institutions	169,851	78,712	132,629	138,977	145,344	144,175	149,674	144,814	145,344	154,812	160,515	162,789
Other nonbank institutions	758,668	879,793	1,234,714	1,674,267	561,636	506,276	466,371	493,780	561,636	524,610	740,129	755,999
Number of bank holding companies engaged in nonbanking activities[12, 15]												
Insurance	n.a.	n.a.	n.a.	143	86	91	92	91	86	94	96	104
Securities broker–dealers	n.a.	n.a.	n.a.	n.a.	47	47	47	47	47	48	50	48
Thrift institutions	58	57	50	38	32	40	37	37	32	31	31	29
Foreign nonbank institutions	21	25	25	32	37	33	35	38	37	38	40	39
Other nonbank institutions	514	559	633	743	880	748	798	835	880	911	944	988
Foreign-owned bank holding companies[13]												
Number	19	18	21	23	26	24	24	24	26	26	27	28
Total assets	296,852	535,024	636,669	764,411	762,901	785,199	787,998	827,867	762,901	799,540	946,847	947,932
Employees of reporting bank holding companies (full-time equivalent)	1,748,549	1,775,418	1,859,930	1,985,981	1,992,559	1,990,550	2,000,084	1,979,260	1,992,559	2,000,168	2,019,953	2,029,709
Assets of fifty large bank holding companies[9, 17]												
Fixed panel (from table 2)	4,632,892	5,036,242	5,403,677	5,744,978	6,064,763	5,745,176	5,876,226	5,967,990	6,064,763	6,218,488	6,587,358	6,602,255
Fifty large as of reporting date	4,442,175	4,809,785	5,319,129	5,732,621	6,032,000	5,732,131	5,861,542	5,951,115	6,032,000	6,203,000	6,587,000	6,602,255
Percent of all reporting bank holding companies	78.00	77.50	79.60	77.10	76.10	76.90	76.90	76.50	76.10	76.00	76.10	76.10

NOTE. All data are as of the most recent period shown. The historical figures may not match those in earlier versions of this table because of mergers, significant acquisitions or divestitures, or revisions of bank holding company restatements to financial reports. Data for the most recent period may not include all late-filing institutions.

1. Covers top-tier bank holding companies except (1) those with consolidated assets of less than $150 million and with only one subsidiary bank and (2) multibank holding companies with consolidated assets of less than $150 million, with no debt outstanding to the general public and not engaged in certain nonbanking activities.

2. Data for all reporting bank holding companies and the fifty large bank holding companies reflect merger adjustments to the fifty large bank holding companies. Merger adjustments account for mergers, acquisitions, other business combinations and large divestitures that occurred during the time period covered in the tables so that the historical information on each of the fifty underlying institutions depicts, to the greatest extent possible, the institutions as they exist in the most recent period. In general, adjustments for mergers among bank holding companies reflect the combination of historical data from predecessor bank holding companies.

The data for the fifty large bank holding companies have also been adjusted as necessary to match the historical figures in each company's most recently available financial statement.

In general, the data are not adjusted for changes in generally accepted accounting principles.

3. Includes minority interests in consolidated subsidiaries.

4. Includes credit card lines of credit as well as commercial lines of credit.

5. Includes loans sold to securitization vehicles in which bank holding companies retain some interest, whether through recourse or seller-provided credit enhancements or by servicing the underlying assets. Securitization data were first collected on the FR Y-9C report for June 2001.

6. The notional value of a derivative is the reference amount of an asset on which an interest rate or price differential is calculated. The total notional value of a bank holding company's derivatives holdings is the sum of the notional values of each derivative contract regardless of whether the bank holding company is a payor or recipient of payments under the contract. The actual cash flows and fair market values associated with these derivative contracts are generally only a small fraction of the contract's notional value.

7. Income statement subtotals for all reporting bank holding companies and the fifty large bank holding companies exclude extraordinary items, the cumulative effects of changes in accounting principles, and discontinued operations at the fifty large institutions and therefore will not sum to Net income. The efficiency ratio is calculated excluding nonrecurring income and expenses.

8. Calculated on a fully-taxable-equivalent basis.

9. In general, the fifty large bank holding companies are the fifty largest bank holding companies as measured by total consolidated assets for the latest period shown. Excludes a few large bank holding companies whose commercial banking operations account for only a small portion of assets and earnings.

10. Excludes predecessor bank holding companies that were subsequently merged into other bank holding companies in the panel of fifty large bank holding companies. Also excludes those bank holding companies excluded from the panel of fifty large bank holding companies because commercial banking operations represent only a small part of their consolidated operations.

11. Excludes qualifying institutions that are not reporting bank holding companies.

12. No data related to financial holding companies and only some data on nonbanking activities were collected on the FR Y-9C report before implementation of the Gramm–Leach–Bliley Act in 2000.

13. A bank holding company is considered "foreign-owned" if it is majority-owned by a foreign entity. Data for foreign-owned companies do not include data for branches and agencies of foreign banks operating in the United States.

14. Total assets of insured commercial banks in the United States as reported in the commercial bank Call Report (FFIEC 031 or 041, Reports of Condition and Income). Excludes data for a small number of commercial banks owned by other commercial banks that file separate call reports yet are also covered by the reports filed by their parent banks. Also excludes data for mutual savings banks.

15. Data for thrift, foreign nonbank, and other nonbank institutions are total assets of each type of subsidiary as reported in the FR Y-9LP report. Data cover those subsidiaries in which the top-tier bank holding company directly or indirectly owns or controls more than 50 percent of the outstanding voting stock and that has been consolidated using generally accepted accounting principles. Data for securities broker–dealers are net assets (that is, total assets, excluding intercompany transactions) of broker–dealer subsidiaries engaged in activities pursuant to the Gramm–Leach–Bliley Act, as reported on schedule HC-M of the FR Y-9C report. Data for insurance activities are all insurance-related assets held by the bank holding company as reported on schedule HC-I of the FR Y-9C report.

Beginning in 2002:Q1, insurance totals exclude intercompany transactions and subsidiaries engaged in credit-related insurance or those engaged principally in insurance agency activities. Beginning in 2002:Q2, insurance totals include only newly authorized insurance activities under the Gramm–Leach–Bliley Act.

16. Aggregate assets of thrift subsidiaries were affected significantly by the conversion of Charter One's thrift subsidiary (with assets of $37 billion) to a commercial bank in the second quarter of 2002 and the acquisition by Citigroup of Golden State Bancorp (a thrift institution with assets of $55 billion) in the fourth quarter of 2002.

17. Changes over time in the total assets of the time-varying panel of fifty large bank holding companies are attributable to (1) changes in the companies that make up the panel and (2) to a small extent, restatements of financial reports between periods.

n.a. Not available.

SOURCE. Federal Reserve Reports FR Y-9C and FR Y-9LP, Federal Reserve National Information Center, and published financial reports.

Announcements

FEDERAL OPEN MARKET COMMITTEE STATEMENT

The Federal Open Market Committee decided, on December 9, 2003, to keep its target for the federal funds rate at 1 percent.

The Committee continues to believe that an accommodative stance of monetary policy, coupled with robust underlying growth in productivity, is providing important ongoing support to economic activity. The evidence accumulated over the intermeeting period confirmed that output was expanding briskly, and the labor market appeared to be improving modestly. Increases in core consumer prices were muted and expected to remain low.

The Committee perceived that the upside and downside risks to the attainment of sustainable growth for the next few quarters would be roughly equal. The probability of an unwelcome fall in inflation had diminished in recent months and appeared almost equal to that of a rise in inflation. However, with inflation quite low and resource use slack, the Committee believed that policy accommodation could be maintained for a considerable period.

Voting for the FOMC monetary policy action were: Alan Greenspan, Chairman; Timothy F. Geithner, Vice Chairman; Ben S. Bernanke; Susan S. Bies; J. Alfred Broaddus, Jr.; Roger W. Ferguson, Jr.; Edward M. Gramlich; Jack Guynn; Donald L. Kohn; Michael H. Moskow; Mark W. Olson; and Robert T. Parry.

PROPOSED RULES PUBLISHED FOR PROVIDING DISCLOSURES

The Federal Reserve Board, on November 26, 2003, published proposed rules to establish more uniform standards for providing disclosures under five consumer protection regulations: B (Equal Credit Opportunity); E (Electronic Fund Transfers); M (Consumer Leasing); Z (Truth in Lending); and DD (Truth in Savings).

Establishing a more uniform standard, and defining more specifically the standard for providing disclosures, is intended to help ensure that consumers receive noticeable and understandable information that is required by law in connection with obtaining consumer financial products and services. In addition, consistency among the regulations should facilitate compliance by institutions. Under most of the consumer financial services and fair lending laws administered by the Board, consumers must be provided with disclosures that are "clear and conspicuous." This standard is currently defined using similar but not identical language in the various regulations. The proposed rules provide a more specific definition for "clear and conspicuous" and include examples of how to meet the standard.

The Board is also proposing additional amendments to Regulation Z and the staff commentary that interprets and implements the regulation. An interpretive rule of construction would be added to clarify that the word "amount" represents a numerical amount throughout Regulation Z. Proposed updates to the staff commentary provide guidance on consumers' exercise of rescission rights for certain home-secured loans. The proposal also includes several technical revisions to the staff commentary.

APPROVAL OF FINAL RULE TO REGULATION Y

The Federal Reserve Board, on December 4, 2003, announced its approval of a final rule to Regulation Y (Bank Holding Companies and Change in Bank Control) that expands the ability of all bank holding companies, including financial holding companies, to process, store, and transmit nonfinancial data in connection with their financial data processing, storage, and transmission activities.

The rule became effective on January 8, 2004.

PROPOSED RULE TO AMEND REGULATION CC

The Federal Reserve Board, on December 22, 2003, approved a proposed rule to amend Regulation CC (Availability of Funds and Collection of Checks) and its commentary to implement the Check Clearing for the 21st Century Act (Check 21 Act). The Check 21 Act was enacted on October 28, 2003, and becomes effective on October 28, 2004.

To facilitate check truncation and electronic check exchange, the Check 21 Act authorizes a new negotiable instrument called a "substitute check" and provides that a properly prepared substitute check is the legal equivalent of the original check for all purposes. A substitute check is a paper reproduction of the original check that can be processed just like the original check. The Check 21 Act does not require any bank to create substitute checks or to accept checks electronically.

The Board's proposed amendments: (1) set forth the requirements of the Check 21 Act that apply to banks; (2) provide a model disclosure and model notices relating to substitute checks; and (3) set forth bank endorsement and identification requirements for substitute checks. The proposed amendments also clarify some existing provisions of the rule and commentary.

Comments Requested on Interim Final Rules to the Fair and Accurate Transactions Act of 2003

The Federal Reserve Board, on December 16, 2003, requested comment on interim final rules and proposed rules to establish effective dates for certain provisions of the Fair and Accurate Transactions Act of 2003 (FACT Act) including provisions that preempt state laws that regulate areas governed by the Fair Credit Reporting Act (FCRA). These regulations are being issued jointly with the Federal Trade Commission (FTC).

The recently enacted FACT Act amends the FCRA and requires the Board and the FTC, within sixty days of enactment, to adopt final rules establishing the effective dates for provisions of the FACT Act that do not have a statutorily prescribed effective date. The agencies jointly adopted interim final rules that established December 31, 2003, as the effective date for the preemption provisions of the FACT Act as well as provisions authorizing the agencies to adopt rules or take other actions to implement the FACT Act.

The current preemption provisions of the FCRA expired on January 1, 2004. Adopting these rules as interim final rules without advance public comment or delay was intended to avoid delays that could undermine the purpose of these provisions and cause confusion about the applicability of some state laws in areas that the Congress has determined should be governed by uniform national standards. Adopting these rules would also have the effect of preserving the current state of the law while comment was received.

The Board and the FTC also jointly proposed rules establishing a schedule of effective dates for other provisions of the FACT Act that do not contain effective dates. The joint proposed rules would establish March 31, 2004, as the effective date for provisions of the FACT Act that do not require significant changes to business procedures. With respect to other provisions that likely entail significant changes to business procedures, the joint proposed rules would make these provisions effective on December 1, 2004, to allow industry a reasonable time to establish systems to comply with the statute.

Comments on the joint interim final rules and proposed rules were due January 12, 2004.

Annual Notice of Asset-Size Exemption Threshold

The Federal Reserve Board, on December 19, 2003, published its annual notice of the asset-size exemption threshold for depository institutions under Regulation C (Home Mortgage Disclosure).

The asset-size exemption for depository institutions was raised to $33 million based on the annual percentage change in the consumer price index for urban wage earners and clerical workers for the twelve-month period ending in November 2003. As a result, depository institutions with assets of $33 million or less as of December 31, 2003, are exempt from data collection in 2004. An institution's exemption from collecting data in 2004 does not affect its responsibility to report the data it was required to collect in 2003.

The Board also is publishing technical amendments to Regulation C and the staff commentary to conform them to changes in the standards for defining metropolitan statistical area boundaries made by the U.S. Office of Management and Budget.

The adjustment and technical amendments became effective January 1, 2004.

The Home Mortgage Disclosure Act (HMDA) and the Board's Regulation C require most depository institutions and certain for-profit, nondepository institutions to collect, report, and disclose data about applications for, and originations and purchases of home purchase loans, refinancings, and home improvement loans. Data reported include the type, purpose, and amount of the loan; the ethnicity, race, sex, and income of the loan applicant; and the location of the property. The purposes of HMDA include helping to determine whether financial institutions are serving the housing needs of their communities and assisting in fair lending enforcement.

REPORT OF THE WORKING GROUP ON GOVERNMENT SECURITIES CLEARANCE AND SETTLEMENT

The Federal Reserve Board, on January 7, 2004, released the report of the private-sector Working Group on Government Securities Clearance and Settlement and endorsed its recommendations.

The Working Group, formed by the Board after the September 11, 2001, terrorist attacks in New York City, recommended nine steps to mitigate risks to the financial system from the interruption or termination of the services of a clearing bank as the result of either operational or non-operational problems.

All of the major participants in the U.S. government securities markets depend on one of two commercial banks to settle their trades and facilitate financing of their positions. The terrorist attacks demonstrated ways that operational disruptions to a clearing bank's services could disrupt the trading, clearance, and settlement of government securities. Those events also reinforced government officials' long-standing concerns about the potential consequences of voluntary or involuntary exit from the business by either of the two clearing banks.

The Working Group recommendations are the following:

- Regulators should monitor and test implementation of the clearing banks' plans to satisfy the regulators' sound practices and implementation timelines for core clearing and settlement organizations as described in the Interagency Paper on Sound Practices to Strengthen the Resilience of the U.S. Financial System, issued April 8, 2003, by the Board, the Office of the Comptroller of the Currency, and the Securities and Exchange Commission (SEC).
- The private sector should develop a secure and resilient telecommunications infrastructure for clearance and settlement of U.S. government securities. The official sector should support this effort.
- Market participants, regulators, and others in the official sector should encourage further efforts to reduce the specific threats posed by cyber-terrorism.
- To minimize the adverse effect of any temporary reduction in clearing bank capacity, market participants should act now to: (1) review their existing documentation for U.S. government securities and repurchase transactions and seek to clarify their obligations to counterparties in the event of a future temporary disruption at a clearing bank; and (2) ensure that the Fixed Income Clearing Corporation's existing netting and guaranteed settlement services are used as much as practical.
- With the same objective, regulators should review their authority to temporarily liberalize or suspend various regulations when such actions could contribute to the restoration of orderly markets or if compliance with such regulations may be unusually costly during a temporary disruption. As an element of their contingency planning, regulators should consider in advance the costs and benefits of liberalization or suspension of such regulations. Likewise, they should review their authority to suspend trading or settlement activity and consider in advance the costs and benefits of such measures.
- In the event of a temporary reduction in clearing bank processing capacity, the following should occur: (1) market participants should explore changes to the settlement cycle for U.S. government securities and limitations on collateral substitutions in repurchase transactions; (2) the Federal Reserve should consider altering the operating hours of the Fedwire system, liberalizing the terms of its government securities lending program, and, when necessary and appropriate, injecting additional liquidity into the marketplace; and (3) consistent with their contingency plans, regulators should consider liberalizing or suspending relevant regulations when appropriate to mitigate adverse effects on the trading and settlement of government securities.
- Market participants and regulators should support efforts, such as The Bond Market Association's effort to enhance the value of its Emergency Subcommittee, that would provide a source of real-time information on the functioning of the government securities clearance and settlement system and offer a potential sounding board for actions being contemplated by market participants, the Federal Reserve, the SEC, the U.S. Department of the Treasury, or other regulators.
- In the event of a permanent exit of a clearing bank, every effort should be made to sell the exiting bank's clearing business to another well-qualified bank.
- Additional work should be undertaken to further develop the concept of creating a new bank (NewBank), a dormant entity, ready for activation in the event that a clearing bank permanently exited and no well-qualified bank steps forward.

The Board supports these recommendations and plans to establish another private-sector working group to work on developing the NewBank concept.

The Working Group, established by the Board in November 2002, was chaired by Michael Urkowitz, Senior Adviser to Deloitte Consulting. Its members included senior representatives of the two clearing banks for government securities (J.P. Morgan Chase and the Bank of New York), the Fixed Income Clearing Corporation, securities dealers, an interdealer broker, a custodian bank, a money market fund, The Bond Market Association, and the Investment Company Institute. Staff of the Federal Reserve, the SEC, and the U.S. Treasury participated in the Working Group as observers and technical advisers.

The Working Group was formed because of public comment offered in response to the Interagency White Paper on Structural Change in the Settlement of Government Securities: Issues and Options, issued May 9, 2002, by the Board and the SEC. The White Paper explored the merits of possible approaches to structural change to existing clearing arrangements that would involve creation of some type of industry utility to assume the critical functions of the clearing banks. The public comments suggested that government policymakers should focus on mitigating risks within the existing structure of two clearing banks rather than on fostering development of a utility.

FIGURES ON INCOME OF THE FEDERAL RESERVE BANKS

The Federal Reserve Board, on January 8, 2004, released figures that indicate the Federal Reserve Banks distributed approximately $21.997 billion of their $23.792 billion total income to the U.S. Treasury during 2003.

Federal Reserve System income is derived primarily from interest earned on U.S. government securities that the Federal Reserve has acquired through open market operations. This income amounted to $22.602 billion in 2003. Additionally, revenues from fees for the provision of priced services to depository institutions totaled $887 million. The remaining income of $303 million includes earnings on foreign currencies, earnings from loans, and other income.

The operating expenses of the twelve Reserve Banks totaled $2.366 billion in 2003, including the System's net pension costs. In addition, the cost of earnings credits granted to depository institutions amounted to $121 million. Assessments against Reserve Banks for Board expenditures totaled $297 million and the cost of currency amounted to $508 million.

Net additions to income amounted to $2.481 billion, resulting primarily from unrealized gains on assets denominated in foreign currencies revalued to reflect current market exchange rates.

Total net income for the Federal Reserve Banks in 2003 amounted to $22.981 billion. Under the Board's policy, each Reserve Bank's net income after the statutory dividend to member banks and the amount necessary to equate surplus to paid-in capital is transferred to the U.S. Treasury. The statutory dividends to member banks in 2003 were $518 million.

LAUNCH OF THE FISCAL IMPACT TOOL

The Federal Reserve Board, on January 12, 2004, announced the launch of a new informational resource designed to help community economic developers evaluate development proposals. The new resource tool complements two additional Board products that also seek to promote community development activities.

The Fiscal Impact Tool (FIT) is an automated system that analyzes the potential effect of economic development projects. The program, which is driven by Excel software, estimates the effects of proposed projects on local sales and property tax revenues and on costs to the local government.

FIT is intended for use by economic and community development professionals, primarily in small and midsize communities. Using estimates that are based on user-provided information about the project, FIT can identify the general costs and benefits of proposed projects. Alternatively, it can be used as an aid in decisionmaking by providing information on the extent of financial support that a community or region might want to provide when planning for various development options.

FIT is one of a series of new online resources for community developers. The Board's Community Affairs Office also created Lessons Learned: Community and Economic Development Case Studies—a database that profiles the practices and programs used in various communities to finance economic development. Each case study identifies a problem, the solution, the results, the lessons learned, and contact information for the project. In choosing the case studies to be highlighted in the database, consideration is given to the transferability of the program to other geographic areas and the potential for others to benefit from the lessons learned by the developers implementing the program or project.

Finally, the Community Development Investments web site is a source for information about Federal Reserve policies and guidelines that promote investment by bank holding companies and state member banks in community development activities. The site features a regulatory overview, information on investment authority and procedures, and links to additional resources.

The OSFI and Federal Reserve Board Announce Agreement with the Canadian Imperial Bank of Commerce

The Office of the Superintendent of Financial Institutions (OSFI) Canada and the Board of Governors of the Federal Reserve System in the United States announced, on December 22, 2003, that they have reached an agreement with the Canadian Imperial Bank of Commerce (CIBC). The agreement is part of coordinated actions between the OSFI and U.S. regulatory and enforcement authorities related to the CIBC's involvement in certain structured finance transactions with the Enron Corporation, Houston, Texas.

The agreement with the OSFI and the Board is specifically focused on the particular structured finance transactions entered into by the CIBC with Enron and requires the CIBC to adopt remedial policies and procedures, some of which are already in place. The agreement covers certain types of complex, structured, financial transactions, and year-end and quarter-end transactions, with U.S. corporations registered under the Securities and Exchange Commission Act of 1934 and any affiliates. The U.S. Securities and Exchange Commission and the U.S. Department of Justice also announced Enron-related actions against the CIBC.

As part of its supervisory action, the OSFI is separately requiring that the CIBC adopt similar enhanced reputational risk management policies in its worldwide operations.

Created in 1987 by an Act of Parliament, the OSFI has a mandate to protect the rights and interests of depositors, policyholders, and pension plan members; and to advance and administer a regulatory framework so as to contribute to public confidence in the Canadian financial system.

The Federal Reserve, the U.S. central bank, shares responsibility with other U.S. and state authorities in overseeing the operations of foreign banking organizations in the United States.

Public Meeting Held on Merger between Bank of America and FleetBoston Financial Corporation

The Federal Reserve Board, on December 22, 2003, announced that public meetings would be held in Boston, Massachusetts, and San Francisco, California, on the proposal by Bank of America Corporation, Charlotte, North Carolina, to merge with FleetBoston Financial Corporation, Boston, Massachusetts.

The purpose of these meetings was to collect information relating to factors the Board is required to consider under the Bank Holding Company Act. These factors are the effects of the proposal on the financial and managerial resources and future prospects of the companies and banks involved in the proposal, competition in the relevant markets, and the convenience and needs of the communities to be served. Convenience and needs considerations include consideration of the records of performance of Bank of America and FleetBoston under the Community Reinvestment Act.

The specific dates, times, and locations of the meetings were the following:

- Boston—Wednesday, January 14, 2004, at 9:00 a.m. EST, at the Federal Reserve Bank of Boston, 600 Atlantic Avenue, Boston, Massachusetts 02106.
- San Francisco—Friday, January 16, 2004, at 8:30 a.m. PST, at the Federal Reserve Bank of San Francisco, 101 Market Street, San Francisco, California 94105.

Public Comment Sought on Ways to Improve Privacy Notices

Eight federal regulators, on December 23, 2003, announced an advance notice of proposed rulemaking (ANPR) requesting public comment on ways to improve the privacy notices that financial institutions provide to consumers under the Gramm–Leach–Bliley Act (GLB Act).

The ANPR describes various approaches that the agencies could pursue to allow or require financial institutions to provide alternative types of privacy notices that would be more readable and useful to consumers. It also seeks comment on whether differences between federal and state laws pose any special issues for developing a short privacy notice.

Section 503 of the GLB Act requires financial institutions to provide a notice to each customer that describes the institution's policies and practices regarding the disclosure to third parties of nonpublic personal information. In 2000, the agencies published consistent final regulations that implement these provisions, including sample clauses that institutions may use in privacy notices. However, the regulations do not prescribe any specific format or standardized wording for privacy notices.

The agencies do not propose the adoption of any specific action at this time to improve privacy notices. Instead, the agencies request input on what approaches would be most useful to consumers while taking into consideration the burden on financial institutions.

The ANPR was developed jointly by the Board of Governors of the Federal Reserve System, the Commodity Futures Trading Commission, the Federal Deposit Insurance Corporation, the Federal Trade Commission, the National Credit Union Administration, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and the Securities and Exchange Commission.

The agencies will evaluate the public comments on the ANPR with a view toward developing proposals for appropriate interpretations or amendments to their respective regulations. In the event that the agencies decide to proceed, the agencies expect to do so through proposed rulemaking. The agencies also expect that consumer testing will be a key component in the development of any specific proposal.

Agencies Issue Policy Statement on Financial Support to Advised Investment Funds

The federal banking and thrift supervisory agencies issued a policy statement on January 5, 2004, alerting financial institutions to the safety and soundness and legal issues involved in providing financial support to investment funds advised by the institution or its subsidiaries or affiliates.

The statement is prompted by recent market developments, including market volatility, the continued low-interest rate environment, and operational and corporate governance weaknesses. It warns that investment advisory services can pose material risks to a financial institution's liquidity, earnings, capital, and reputation and can harm investors, if the associated risks are not effectively controlled.

To ensure safe and sound banking practices, the policy statement makes clear that a financial institution should not inappropriately place its resources and reputation at risk for the benefit of the fund's investors and creditors. In addition, financial institutions should not violate the limits and requirements contained in applicable legal requirements or in any supervisory conditions imposed by the agencies, and should not create an expectation that they will prop up an advised fund.

The statement sets forth the agencies' expectations regarding the nature of controls that financial institutions should have in place over investment advisory activities and further provides that financial institutions should notify and consult with their primary federal regulator before, or in the event of an emergency, immediately after, providing financial support to an advised fund.

Appointments of New Members and Designation of the Chair and Vice Chair of the Thrift Institutions Advisory Council

The Federal Reserve Board, on December 1, 2003, announced the names of four new members of its Thrift Institutions Advisory Council (TIAC) and designated a new president and vice president of the council for 2004.

The council is an advisory group made up of twelve representatives from thrift institutions. The panel was established by the Board in 1980 and includes savings and loan, savings bank, and credit union representatives. The council meets three times each year with the Board of Governors to discuss developments relating to thrift institutions, the housing industry, mortgage finance, and certain regulatory issues.

The new council president for 2004 is William J. Small, chairman and CEO, First Federal Bank, Defiance, Ohio. The new vice president is D. Tad Lowrey, chairman, president, and CEO, Jackson Federal Bank, Brea, California.

The four new members, named for two-year terms that began January 1, 2004, are the following:

H. Brent Beesley, chairman and CEO, Heritage Bank, St. George, Utah

Douglas K. Freeman, chairman and CEO, NetBank, Alpharetta, Georgia

David H. Hancock, CEO, North American Savings Bank, Grandview, Missouri

Roy M. Whitehead, president and CEO, Washington Federal Savings, Seattle, Washington

Other TIAC members whose terms continue through 2004 are the following:

Michael J. Brown, Sr., president and CEO, Harbor Federal Savings Bank, Fort Pierce, Florida

Richard J. Driscoll, president, First Savings Bank, FSB, Arlington, Texas

Curtis L. Hage, chairman and CEO, Home Federal Bank, Sioux Falls, South Dakota

Olan O. Jones, Jr., president and CEO, Eastman Credit Union, Kingsport, Tennessee

Kirk Kordeleski, president and CEO, Bethpage Federal Credit Union, Bethpage, New York

George W. Nise, president and CEO, Beneficial Savings Bank, Philadelphia, Pennsylvania

Appointments of New Members and Designation of the Chair and Vice Chair of the Consumer Advisory Council

The Federal Reserve Board, on January 9, 2004, named nine new members to its Consumer Advisory Council for three-year terms and designated a new chair and vice chair of the council for 2004.

The council advises the Board on the exercise of its responsibilities under the Consumer Credit Protection Act and on other matters in the area of consumer financial services. The council meets three times a year in Washington, District of Columbia.

Agnes Bundy Scanlan was designated chair; her term runs through December 2004. Ms. Scanlan is managing director and chief compliance officer for FleetBoston Financial.

Mark Pinsky was designated vice chair; his term on the council ends in December 2005. Mr. Pinsky is president and chief executive officer for the National Community Capital Association.

The nine new members are the following:

Dennis L. Algiere
Westerly, Rhode Island
Mr. Algiere is senior vice president of Compliance and Community Affairs and the community reinvestment officer for The Washington Trust Company. He is responsible for the bank's compliance, community affairs, community reinvestment, and Bank Secrecy Act programs.

Sheila Canavan
Berkeley, California
Ms. Canavan is an attorney with a law practice that focuses on consumer litigation. Her litigation experience has involved state and federal consumer regulation, elder abuse, fraud, and unfair and unlawful business practices; and she has special expertise in matters relating to subprime lending and securitization of home mortgage products. Ms. Canavan represents consumers, often low-income consumers, on credit transaction issues.

Anne Diedrick
New York, New York
Ms. Diedrick is a senior vice president for JP Morgan Chase. She is an executive team member of the JPMorgan Chase Community Development Group; the senior officer in charge of Community Reinvestment Act compliance at JPMorgan Chase Bank, Chase Manhattan Bank, USA, N.A., and J.P. Morgan Trust Company, N.A.; and the senior manager in charge of the JPMorgan Chase Corporate Fair Lending Unit. She is also responsible for the Office of Strategic Alliances, which works with not-for-profit community development organizations.

Hattie B. Dorsey
Atlanta, Georgia
Ms. Dorsey is the president and chief executive officer of the Atlanta Neighborhood Development Partnership, Inc., a not-for-profit corporation that promotes community revitalization in Atlanta's neighborhoods. Her experience is in single-family and multifamily housing, community and economic development, regional equity, and public policy.

Bruce B. Morgan
Roeland Park, Kansas
Mr. Morgan is chairman, president, chief executive officer, and director of Valley State Bank. He is actively involved in bank regulation, payments systems, and developing technologies that affect bank delivery of products and services. Mr. Morgan serves on the Customer Advisory Committee of the Federal Reserve Bank of Kansas City and on the Payment and Technology Committee of the Independent Community Bankers of America. He is a former member and past chairman of the Kansas State Banking Board.

Mary Jane Seebach
Newbury Park, California
Ms. Seebach is executive vice president and chief compliance officer for Countrywide Financial Corporation. She oversees legal and regulatory compliance programs throughout the enterprise. Previously, Ms. Seebach worked as regulatory counsel advising on state and federal consumer credit laws for Countrywide Home Loans, The Money Store, and North American Mortgage Company, and as a senior attorney for the Federal Reserve Board.

Paul J. Springman
Atlanta, Georgia
Mr. Springman is group executive, Predictive Sciences, for Equifax. He has responsibility for providing modeling, analytical services, decisioning systems, and applications processing for clients. He has been involved in launching a new business line, "Consumer Direct," to provide credit information, account monitoring alerts, and scoring analysis services to consumers.

Forrest F. Stanley
Cleveland, Ohio
Mr. Stanley is senior vice president and associate general counsel for KeyBank. He has responsibility for all legal matters affecting retail banking including mortgage, home equity, credit and debit cards, privacy, the Community Reinvestment Act, e-commerce, and the USA Patriot Act. Mr. Stanley has also been director of two KeyBank subsidiaries, Champion Mortgage Company and Key Bank, USA.

He currently serves as chairman of the bank's Fair Lending Executive Committee.

Lori R. Swanson
St. Paul, Minnesota
Ms. Swanson is solicitor general for the Office of the Minnesota Attorney General. She is responsible for civil litigation and oversees several divisions including Consumer Enforcement, Commerce, and Consumer Services. She negotiated a first-of-its-kind settlement with a national bank in a lawsuit alleging violations of state consumer protection laws and the Fair Credit Reporting Act based on disclosure of personal financial information.

Council members whose terms continue through 2004 are the following:

Janie Barrera, president and chief executive officer, ACCION Texas, San Antonio, Texas

Kenneth P. Bordelon, chief executive officer, E Federal Credit Union, Baton Rouge, Louisiana

Robin Coffey, vice president, Harris Trust and Savings Bank, Chicago, Illinois

Thomas FitzGibbon, senior vice president, MB Financial Bank, N.A., Chicago, Illinois

Larry Hawkins, president and chief executive officer, Unity National Bank, Houston, Texas

Ruhi Maker, senior attorney, Public Interest Law Office of Rochester, Rochester, New York

Patricia McCoy, professor of law, University of Connecticut School of Law, Hartford, Connecticut

Elsie Meeks, executive director, First Nations Oweesta Corporation, Kyle, South Dakota

Debra S. Reyes, president, Neighborhood Lending Partners, Inc., Tampa, Florida

Benson Roberts, vice president for policy, Local Initiatives Support Corporation, Washington, District of Columbia

Hubert Van Tol, co-director, Fairness in Rural Lending, Sparta, Wisconsin

Council members whose terms continue through 2005 are the following:

Susan Bredehoft, senior vice president, compliance risk management, Commerce Bank, N.A., Cherry Hill, New Jersey

Dan Dixon, group senior vice president, World Savings Bank, FSB, Washington, District of Columbia

James Garner, senior vice president and general counsel, North American Consumer Finance, Citigroup, Baltimore, Maryland

R. Charles Gatson, vice president, Midtown Community Development Corporation, Kansas City, Missouri

W. James King, president and chief executive officer, Community Redevelopment Group, Cincinnati, Ohio

Benjamin Robinson III, senior vice president and strategy management executive, Bank of America, Charlotte, North Carolina

Diane Thompson, supervising attorney, Land of Lincoln Legal Assistance Foundation, Inc., East St. Louis, Illinois

Clint Walker, general counsel and chief administrative officer, Juniper Bank, Wilmington, Delaware

Release of the Beige Book

The Federal Reserve Board announced on November 21, 2003, that it would release the November Beige Book on Wednesday, November 26, 2003, at noon EST because of the early closure of some financial markets. The November Beige Book was previously scheduled for release on November 26, 2003, at 2:00 p.m. EST.

Release of Minutes of Discount Rate Meetings

The Federal Reserve Board, on December 18, 2003, released the minutes of its discount rate meetings from September 29, 2003, through October 27, 2003.

Publication of the November 2003 Update to the *Commercial Bank Examination Manual*

The November 2003 update to the *Commercial Bank Examination Manual* (Supplement Nos. 19 and 20), has been published and is now available. The new update includes supervisory and examination guidance on the following subjects:

1. *The Applicability of Corporate Governance Initiatives to Nonpublic Banking Organizations.* The section on the internal control and audit function, oversight, and outsourcing has been revised to incorporate the May 5, 2003, Statement on Application of Recent Corporate Governance Initiatives to Nonpublic Banking Organizations. The statement (issued by the Federal Reserve, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision) responds to questions received regarding the way that small, nonpublic banking organizations are to comply with the corporate governance, auditing, and other requirements of the Sarbanes–Oxley Act. Although the act

does not require small, nonpublic banking organizations to strictly adhere to its provisions, the agencies expect these banking organizations to ensure that their policies and procedures are consistent with applicable laws, regulations, and supervisory guidance and that they remain appropriate for the organization's size, operations, and resources. See SR letter 03-8.

2. *The Appropriate Use of the Federal Reserve's Primary Credit Program in Effective Liquidity Management.* The sections on asset and liability management have been revised to incorporate the July 25, 2003, Interagency Advisory on the Use of the Federal Reserve's Primary Credit Program in Effective Liquidity Management. The advisory presents information on the new Federal Reserve primary and secondary discount window programs. The advisory provides guidance on the appropriate use of primary credit in effective liquidity management. The board of directors and senior management of a depository institution are advised to consider the Federal Reserve's primary credit program as part of their contingency funding plans and to provide for adequate diversified potential sources of funds to satisfy liquidity needs, which includes planning for certain significant liquidity events. The examination procedures and internal control questionnaire were also revised. See SR letter 03-15.

3. *Insurance Sales Activities and Consumer Protection in Sales of Insurance.* New sections provide examiners' guidance for (1) conducting risk assessments of state member bank insurance and annuity sales activities in accordance with the Federal Reserve's risk-focused supervisory approach and (2) examining a state member bank's compliance with the Consumer Protection in Sales of Insurance (CPSI) regulation, Subpart H of the Board's Regulation H (12 CFR 208.81–86). Also discussed are a joint interpretation and joint statement regarding the CPSI regulation. The CPSI regulation (effective October 1, 2001) implements section 305 of the Gramm–Leach–Bliley Act (12 USC 1831x; the GLB Act). The regulation requires certain disclosures in connection with the retail sale or solicitation of insurance products and annuities by a bank, by any other person at bank offices where retail deposits are accepted from the public, or by any person "acting on behalf of the bank." The examination guidance provides a comprehensive review of insurance and annuity sales activities as they pertain to state member banks. Consistent with the GLB Act, the guidance incorporates applicable restrictions on examining a functionally regulated insurance subsidiary of a state member bank. A glossary of terms associated with insurance and annuity sales activities is provided. Examination objectives, examination procedures, and an internal control questionnaire are also provided.

4. *Restrictions on Institutions in Troubled Condition.* The section on formal and informal corrective actions has been revised to discuss the existing restrictions on, and requirements for, severance payments made to institution-affiliated-parties (so called "golden parachute payments"). The restrictions originated from the Crime Control Act of 1990, which added section 18(k) to the Federal Deposit Insurance Act (12 USC 1828(k); the FDI Act). The FDIC's regulations on golden parachute agreements are found in 12 CFR 359 and are discussed in this manual section. The thirty-day prior-notice requirement for appointing any new directors or senior executive officers of state member banks and bank holding companies is also discussed. (See section 32 of the FDI Act (12 USC 1831i) and Subpart H of Regulation Y (12 CFR 225.71). This notice requirement also applies to any change in the responsibilities of any current senior executive officer who proposes to assume a different position. See SR letter 03-6.

5. *Transactions between Member Banks and Their Affiliates.* The section on bank-related organizations is revised to incorporate the examples found in Regulation W, "Transactions between Member Banks and Their Affiliates," for the rule's quantitative limits, collateral requirements, valuations, exemptions, and timing of covered transactions. Additional interim examination procedures are also included.

6. *Fiduciary Activities.* The introduction of the section on fiduciary activities has been revised to provide more examination guidance on the industry standards and examiner responsibilities. For a state member bank's subsidiary that is engaged in fiduciary activities, the examiner should rely on the findings of the appropriate functional regulator that has the primary supervisory responsibility for evaluating risks, hedging, and risk management. See SR letter 00-13. A discussion is provided on the available reported supervisory information and analytical support tools that the examiner can use to evaluate a bank's fiduciary activities.

The public may obtain the *Manual* and the updates (including pricing information) from Publications Fulfillment, Mail Stop 127, Board of Governors of the Federal Reserve System, Washington, DC 20551 (or charge by facsimile at 202-728-5886). The *Manual* is also available on the Board's public web site at www.federalreserve.gov/boarddocs/supmanual/.

Publication of the December 2003 Update to the *Bank Holding Company Supervision Manual*

The December 2003 update to the *Bank Holding Company Supervision Manual*, Supplement No. 25, has been published and is now available. The *Manual* comprises the Federal Reserve System's regulatory, supervisory, and inspection guidance for bank holding companies. The new supplement includes the following subjects:

1. *The Applicability of Corporate Governance Initiatives to Nonpublic Banking Organizations.* The *Manual's* section on the 2003 "Interagency Policy Statement on the Internal Audit Function and its Outsourcing" has been revised to incorporate the May 5, 2003, Statement on Application of Recent Corporate Governance Initiatives to Nonpublic Banking Organizations. The statement (issued

by the Federal Reserve, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision) responds to questions received regarding the way that small, nonpublic banking organizations are to comply with the corporate governance, auditing, and other requirements of the Sarbanes–Oxley Act. Although the act does not require small, nonpublic banking organizations to strictly adhere to its provisions, the agencies expect these banking organizations to ensure that their policies and procedures are consistent with applicable laws, regulations, and supervisory guidance and that they remain appropriate for the organization's size, operations, and resources. See SR letter 03-8.

2. *Insurance Sales Activities and Consumer Protection in Sales of Insurance.* New sections provide examiners with guidance on insurance sales activities and consumer protection in sales of insurance as the guidance pertains to financial holding companies (FHCs), bank holding companies (BHCs), or state member banks. Examiner guidance is provided on (1) conducting risk assessments of BHCs or state member bank insurance and annuity sales activities in accordance with the Federal Reserve's risk-focused supervisory approach and (2) examining a state member bank's compliance with the new Consumer Protection in Sales of Insurance (CPSI) regulation contained in Subpart H of the Board's Regulation H (12 CFR 208.81–86). The CPSI regulation (effective October 1, 2001) applies only to federally insured depository institutions. It implements section 305 of the Gramm–Leach–Bliley Act (the GLB Act; 12 USC 1831x). The guidance provides a comprehensive review of insurance and annuity sales activities as they pertain to a BHC or bank and discusses the Federal Reserve's responsibility for enforcing a depository institution's compliance with the CPSI regulation. Consistent with the GLB Act, the guidance incorporates applicable restrictions on examining a functionally regulated subsidiary of a BHC or bank. A glossary of terms associated with insurance and annuity sales activities is provided. Inspection objectives, inspection procedures, and an internal control questionnaire are also provided.

3. *The Appropriate Use of the Federal Reserve's Primary Credit Program in Effective Liquidity Management.* The section on bank liquidity has been revised to incorporate the July 25, 2003, Interagency Advisory on the Use of the Federal Reserve's Primary Credit Program in Effective Liquidity Management. The advisory presents information on the new Federal Reserve primary and secondary discount window programs. The board of directors and senior management of BHCs and state member banks are advised to consider the Federal Reserve's primary credit program as part of their contingency funding plans and to provide for adequate diversified potential funding sources to satisfy liquidity needs, which includes planning for certain significant liquidity events. See SR letter 03-15.

4. *Restrictions on Institutions in Troubled Condition.* The section on formal corrective actions has been revised to discuss the existing restrictions on, and requirements for, severance payments made to institution-affiliated-parties (so called "golden parachute payments"). The restrictions originated from the Crime Control Act of 1990, which added section 18(k) to the Federal Deposit Insurance Act (12 USC 1828(k); the FDI Act). The FDIC's regulations on golden parachute payments (or any agreement to make any payment), found in 12 CFR 359, are discussed. The thirty-day prior-notice requirement for appointing any new directors or senior executive officers of state member banks and bank holding companies is also discussed. See section 32 of the FDI Act (12 USC 1831i) and Subpart H of Regulation Y (12 CFR 225.71). This notice requirement also applies to any change in the responsibilities of any current senior executive officer who proposes to assume a different position. See SR letter 03-6.

5. *Nonbanking Activities.* Certain new or revised sections of the Nonbanking Activities chapter provide supervisory and inspection guidance or they discuss the Board's authorizations or staff interpretations:

a. *Trust (Fiduciary) Activities.* The trust services section is revised to discuss the oversight responsibilities of the board of directors and senior management for operating the fiduciary activities of their financial holding company (FHC) or bank holding company (BHC) in a safe and sound manner. This oversight at the consolidated level is important because the risks associated with financial activities as well as fiduciary activities can cross legal entities and business lines. Relying on the examination findings of the appropriate trust activities regulator, the examiner is to review and assess the internal policies, reports, and procedures and the effectiveness of the consolidated risk-management process for trust activities. The revision includes a discussion of the available reported supervisory information and analytical support tools that an examiner can use to evaluate the trust services of the holding company and its subsidiaries. See SR letter 00-13.

b. *Derivative Transactions as Principal.* The section on investment transactions as principal is revised to include the Board's June 27, 2003, approval of a Regulation Y amendment (effective August 4, 2003) to permit BHCs to (1) take and make delivery of title to commodities underlying commodity derivative contracts on an instantaneous, pass-through basis and (2) enter into certain commodity derivative contracts that do not require cash settlement or that specifically provide for assignment, termination, or offset before delivery.

c. *Title Abstracting Activities for U.S.-Registered Aircraft.* The real estate title abstracting section (a nonbanking activity previously approved by Board order, which is based on section 4(c)(8) of the BHC Act—see *Federal Reserve Bulletin*, vol. 81 (August 1995), pp. 805–07) is revised to include an October 7, 2002, staff opinion on BHC-conducted title abstracting activities for U.S.-registered aircraft. The title abstracting services are limited to (1) performing a title search of aircraft records and (2) reporting factual information on the ownership history of the relevant aircraft and the existence of liens and encumbrances affecting title to the aircraft.

d. *Limited Physical Commodity Trading Activities for FHCs.* A new section is provided that is based on section 4(k) of the BHC Act, which discusses the Board's October 2, 2003, approval of an FHC's notice under section 4 of the BHC Act to engage in physical commodity trading activities on a limited basis as an activity that is complementary to the financial activity of engaging regularly as principal in commodity derivative activities. (The effective date of the Board's order was also October 2, 2003.)

A more detailed summary of changes is included with the update package. The *Manual* and updates, including pricing information, are available from Publications Fulfillment, Mail Stop 127, Board of Governors of the Federal Reserve System, Washington, DC 20551 (or charge by facsimile: 202-728-5886). The *Manual* is also available on the Board's public web site at www.federalreserve.gov/boarddocs/supmanual/.

ENFORCEMENT ACTIONS

The Federal Reserve Board, on November 21, 2003, announced the issuance of a final decision and order of prohibition against Garfield C. Brown, Jr., a former employee of Mellon Bank, N.A., Pittsburgh, Pennsylvania. The order, the result of an action brought by the Office of the Comptroller of the Currency, prohibits Mr. Brown from participating in the conduct of the affairs of any financial institution or holding company.

The Federal Reserve Board, on November 26, 2003, announced the issuance of a consent order of assessment of a civil money penalty against The Bank of Currituck, Moyock, North Carolina, a state member bank. The Bank of Currituck, without admitting to any allegations, consented to the issuance of the order in connection with its alleged violations of the Board's Regulations implementing the National Flood Insurance Act.

The order requires The Bank of Currituck to pay a civil money penalty of $16,000, which will be remitted to the Federal Emergency Management Agency for deposit into the National Flood Mitigation Fund.

The Federal Reserve Board, on November 26, 2003, announced the issuance of a consent order of assessment of a civil money penalty against the Provident Bank, Cincinnati, Ohio, a state member bank. Provident Bank, without admitting to any allegations, consented to the issuance of the order in connection with its alleged violations of the Board's Regulations implementing the National Flood Insurance Act.

The order requires Provident Bank to pay a civil money penalty of $34,100, which will be remitted to the Federal Emergency Management Agency for deposit into the National Flood Mitigation Fund.

The Federal Reserve Board, on December 1, 2003, announced the execution of a written agreement by and among the Putnam County Bank, Hurricane, West Virginia; the West Virginia Division of Banking, Charlestown, West Virginia; and the Federal Reserve Bank of Richmond.

The Federal Reserve Board, on December 18, 2003, announced the issuance of several enforcement actions involving Credit Lyonnais, S.A., a large French bank with several U.S. offices. The actions relate primarily to Credit Lyonnais's participation in the rehabilitation of the Executive Life Insurance Company of California, which was declared insolvent in 1991. The Federal Reserve's actions included the following:

- A civil money penalty of $100 million against Credit Lyonnais issued by consent.
- A consent cease and desist order against Credit Lyonnais designed to prevent future violations of the Bank Holding Company Act.
- Initiation of a formal enforcement action against Jean Peyrelevade, the former chairman and chief executive officer of Credit Lyonnais, seeking to prohibit him from the U.S. banking industry, and assessing a $500,000 civil money penalty against him. Peyrelevade will have an opportunity to answer the charges and request a hearing before an administrative law judge.
- A written agreement between Credit Agricole, the parent of Credit Lyonnais, and the Federal Reserve Bank of New York in which Credit Agricole agrees to comply with the restrictions in the Credit Lyonnais cease and desist order. Credit Agricole, which acquired Credit Lyonnais in June 2003, had no part in the conduct that led to these enforcement actions.

In addition to the Federal Reserve's actions, the U.S. attorney in Los Angeles is announcing that Credit Lyonnais and several other entities and individuals have agreed to plead guilty to specific crimes related to their roles in the Executive Life matter, as well as announcing an indictment against several other individuals involved in the matter, including Peyrelevade. The Federal Reserve Board and the Federal Reserve Bank of New York investigated the matter jointly with the U.S. Attorney's Office. The consent enforcement actions being announced by the Federal Reserve are part of a global accord designed to address both the regulatory and criminal aspects of the Executive Life matter.

The Federal Reserve is also working with the French banking supervisor to take joint action to require Credit Lyonnais and its parent to enhance their overall compliance programs. Completion of the documentation for this action is expected shortly.

The Federal Reserve's consent action against Credit Lyonnais resolves allegations that, beginning in the early 1990s, Credit Lyonnais violated the Bank Holding Company Act by acquiring the company that assumed Executive Life's insurance underwriting business through secret agreements that were concealed from the Federal Reserve. The action also resolves allegations that Credit Lyonnais intentionally misrepresented to the Federal Reserve the extent of its ownership interests in a portfolio of junk bonds that had been acquired from Executive Life, as well as its substantial equity investment and other relationships with Artemis, S.A., a French company that subsequently acquired the successor insurance company and junk bond portfolio. In the Board's order, Credit Lyonnais neither admits nor denies these allegations.

The notice of charges issued against Peyrelevade, who became the chief executive officer of Credit Lyonnais after the acquisition of the insurance business, alleges that he took steps to further the alleged violations, engaged in unsafe and unsound practices in not reporting the violations when he learned about them, and made false statements to Federal Reserve investigators about the scope of his knowledge of the secret acquisition.

The Federal Reserve Board, on December 24, 2003, announced the execution of a written agreement by and among Combanc, Delphos, Ohio; The Commercial Bank, Delphos, Ohio; the Ohio Division of Financial Institutions, Columbus, Ohio; and the Federal Reserve Bank of Cleveland.

The Federal Reserve Board, on January 8, 2004, announced the issuance, together with the Commission Bancaire, the regulator of French banks, of a consent enforcement action against Credit Lyonnais, S.A., a large French bank, and Credit Agricole, S.A., its parent company.

This action is the third one agreed to by Credit Lyonnais and its parent with respect to Credit Lyonnais's participation in the rehabilitation of the Executive Life Insurance Company of California. The Federal Reserve was working with the French banking regulator on this joint action when the other enforcement actions were announced on December 18, 2003. The other actions, among other things, require specific remedial actions to address concerns arising out of the Executive Life matter.

The January 8 action by the Federal Reserve and the Commission Bancaire requires that Credit Lyonnais and Credit Agricole, as Credit Lyonnais's parent, establish programs designed to ensure their overall compliance with applicable U.S. banking and financial laws, rules, and regulations. Credit Lyonnais and Credit Agricole are also required to enhance their general organizational infrastructure, as well as policies and procedures, with respect to compliance with U.S. laws and regulations, subject to the oversight of the Commission Bancaire and the Federal Reserve Board.

Credit Agricole, which acquired Credit Lyonnais in June 2003, had no part in the conduct that led to this enforcement action.

The Federal Reserve Board, on January 9, 2004, announced the issuance of an order of prohibition and an order to cease and desist against Scott Smolinski, a former vice president of the James Monroe Bank, Arlington, Virginia.

Mr. Smolinski, without admitting to any allegations, consented to the issuance of the order based on his alleged participation in violations of law and unsafe or unsound practices regarding identity theft, falsification of bank records, misapplication of bank funds, self-dealing, and violations of institutional internal controls that resulted in losses and other damage to the bank and personal gain to Mr. Smolinski.

CHANGES IN BOARD STAFF

The Board of Governors has approved the promotion of Fay Peters to director of the Management Division.

Ms. Peters was appointed to the official staff as deputy director of the Management Division in April 2003 and has served as acting director since William R. Jones retired in August 2003. Ms. Peters joined the Federal Reserve System in 1982 as an attorney in the Legal Department of the Federal Reserve Bank of Boston. In 1988 she transferred to the Federal Reserve Bank of Minneapolis as assistant general counsel and deputy equal employment opportunity (EEO) officer. In 1999 she was promoted to vice president, with responsibilities for managing the Bank's facilities, protection, and administrative services functions and advising Bank executives on EEO matters. Ms. Peters holds a B.S. in business administration from Northeastern University and a J.D. from the Boston University School of Law.

The Board of Governors has approved the appointment of Peter J. Purcell as associate director and chief technology officer for the System's supervision function.

Mr. Purcell will coordinate Information Technology (IT) support and development efforts for the System's supervision function. Before joining the Board, Mr. Purcell held IT management positions at several banking organizations and was an international technology services provider. He started his career in information technology at the Federal Reserve Bank of Boston. Mr. Purcell holds a B.B.A. from Nazareth College and an M.B.A. in management from Western Michigan University. ❑

Legal Developments

ORDERS ISSUED UNDER BANK HOLDING COMPANY ACT

Orders Issued Under Section 3 of the Bank Holding Company Act

AllNations Bancorporation, Inc.
Shawnee, Oklahoma

Order Approving the Formation of a Bank Holding Company and the Acquisition of a Bank

AllNations Bancorporation, Inc. ("AllNations") has requested the Board's approval under section 3(a)(1) of the Bank Holding Company Act ("BHC Act") (12 U.S.C. § 1842(a)(1)) to become a bank holding company by acquiring all the voting shares of The First National Bank of Calumet, Calumet, Oklahoma ("Calumet Bank"). AllNations is wholly owned by the Absentee Shawnee Tribe of Indians of Oklahoma ("Tribe"), a Native-American tribe.

Notice of the proposal, affording interested persons an opportunity to comment, has been published (68 *Federal Register* 35,411 (2003)). The time for filing comments has expired, and the Board has considered all the comments received on the application in light of the factors enumerated in section 3 of the BHC Act.

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or would be in furtherance of a monopoly in any relevant banking market. The BHC Act also prohibits the Board from approving a proposed bank acquisition that would substantially lessen competition in any relevant banking market, unless the Board finds that the anticompetitive effects of the proposal clearly are outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served.[1]

AllNations is a newly organized corporation that does not control a depository institution and has been formed to acquire Calumet Bank. Calumet Bank is the 261st largest depository institution in Oklahoma,[2] controlling $16.5 million in deposits, representing less than 1 percent of total deposits in the state.[3] The Board has reviewed carefully all the facts of record and has concluded that consummation of the proposal likely would not have a significantly adverse effect on competition or on concentration of banking resources in any relevant banking market. Accordingly, the Board has determined that competitive factors are consistent with approval of the proposal.

Section 3 of the BHC Act also requires the Board to consider the effect of the transaction on the convenience and needs of the community to be served.[4] In evaluating this factor, the Board places particular emphasis on the ratings received by the depository institutions involved in a proposal at their most recent examinations under the Community Reinvestment Act (12 U.S.C. § 2901 *et seq.*) ("CRA"). Calumet Bank received a "satisfactory" CRA rating from its primary federal supervisor, the Office of the Comptroller of the Currency ("OCC"), as of May 3, 1999.

AllNations has stated that it intends to retain the bank's current retail banking activities in the Calumet community and to offer retail banking services to Tribe and other Native-American tribes. After reviewing all the information submitted by AllNations and Calumet Bank related to the convenience and needs factor and based on all the facts of record, the Board concludes that considerations relating to convenience and needs are consistent with approval.

Section 3 of the BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and banks involved in a bank acquisition proposal as well as the principal shareholders.[5] As part of this analysis, the Board has reviewed confidential examination information about Calumet Bank and publicly reported financial and other information about the bank, AllNations, and the proposal. The Board has also considered confidential supervisory and other information provided by the OCC, the primary federal supervisor for Calumet Bank. In addition, the Board has reviewed AllNations's operating plan for Calumet Bank and the proposed management of AllNations and the bank. The Board also has taken into account the financial resources of AllNations, including its capital levels and ability to serve as a source of strength to the bank.

The principal shareholder of AllNations is Tribe.[6] Tribe has acknowledged that its interest in and relationship with

1. 12 U.S.C. § 1842(c)(1)(A) and (B).
2. In this context, the term "depository institution" includes commercial banks, savings banks, and savings associations.
3. The deposit and ranking data are as of June 30, 2002.
4. 12 U.S.C. § 1842(c)(2).
5. 12 U.S.C. § 1842(c).
6. The stock of AllNations will be voted by the Governor of Tribe in his official capacity. The Board previously has recognized that Native-American tribes such as Tribe are considered domestic sovereigns and are excluded from the BHC Act's definition of "company." *E.g., Mille Lacs Bancorporation*, 82 *Federal Reserve Bulletin* 336

AllNations and Calumet Bank would be subject to federal banking laws. It has made commitments to ensure that Tribe's status as a domestic sovereign does not impede the ability of the federal banking agencies to supervise and enforce banking laws against any entity related to or affiliated with AllNations and Calumet Bank. Tribe also has acknowledged the jurisdiction of the Board to enforce compliance with applicable banking laws and has agreed to the federal courts' jurisdiction to enforce these laws. In addition, Tribe has committed that the tribe and its affiliates will make available the information on their operations and activities necessary for the Board to determine and enforce compliance with applicable federal banking laws. After considering all the facts of record, including all commitments made in connection with this proposal, the Board concludes that the financial and managerial resources and future prospects of AllNations and Calumet Bank are consistent with approval, as are the other supervisory factors the Board is required to consider under the BHC Act.

Based on the foregoing and after considering all the facts of record, the Board has determined that the application should be, and hereby is, approved. In reaching its conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act. The Board's approval is specifically conditioned on compliance by AllNations, Tribe, and all affiliated entities with the commitments and representations made in connection with the application, including the commitments described in this order. These commitments and conditions are deemed to be conditions imposed in writing by the Board in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

The acquisition of Calumet Bank may not be consummated before the fifteenth calendar day after the effective date of this order, and the proposal may not be consummated later than three months after the effective date of this order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of Kansas City, acting pursuant to delegated authority.

By order of the Board of Governors, effective November 12, 2003.

Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Gramlich, Bies, Olson, Bernanke, and Kohn.

ROBERT DEV. FRIERSON
Deputy Secretary of the Board

(1996). Four bank holding companies are wholly owned by Native-American tribes. *See Bay Bancorporation*, 81 *Federal Reserve Bulletin* 791 (1995); *Mille Lacs Bancorporation, supra; Native American Bancorporation*, 87 *Federal Reserve Bulletin* 747 (2001); *Chickasaw Banc Holding Company*, 88 *Federal Reserve Bulletin* 99 (2002).

The Desjardins Group
Montreal, Canada

Federation des caisses Desjardins du Quebec
Levis, Canada

La Caisse centrale Desjardins du Quebec
Montreal, Canada

Desjardins FSB Holdings, Inc.
Wilmington, Delaware

Order Approving the Formation of Bank Holding Companies

The Desjardins Group, Montreal; Federation des caisses Desjardins du Quebec, Levis ("The Federation"); La Caisse centrale Desjardins du Quebec, Montreal ("CCD"), all in Canada; and Desjardins FSB Holdings, Inc., Wilmington, Delaware ("Desjardins Holdings"), have requested the Board's approval under section 3 of the Bank Holding Company Act (12 U.S.C. § 1842) ("BHC Act") to become bank holding companies. Applicants propose to convert their wholly owned subsidiary federal savings bank, Desjardins Federal Savings Bank, Hallandale, Florida ("Desjardins FSB"), to a national bank that would operate as Desjardins Bank, N.A. ("Desjardins Bank"), also in Hallandale.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (68 *Federal Register* 39,091 (2003)). The time for filing comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in section 3 of the BHC Act.

The Desjardins Group is a cooperative network of financial institutions operating primarily in the province of Quebec, Canada, that functions in many respects as a single financial organization. It includes approximately 750 depository institutions ("caisses"); the Federation and CCD, also depository institutions under Quebec law; and nonbanking companies engaged in securities, asset management, and insurance activities in Canada. Quebec law controls the structure and supervision of the Desjardins Group, The Federation and CCD, and the caisses.

The caisses are autonomous depository institutions chartered as savings and credit cooperatives and are required by Quebec law to be members of The Federation.[1] Together, the caisses control all the shares of The Federation, and the boards of directors of The Federation are elected by the caisses.[2] Quebec law requires The Federation to act as the coordinating and supervisory body for all the caisses. The Federation is responsible for the auditing and inspection of the caisses and is the regulatory authority

1. The principal activity of the caisses is accepting deposits from members of the caisses and investing in designated assets, including extensions of credit to those members, primarily through mortgage loans. Membership is typically based on geographical areas or common workplaces or professions.

2. Approximately 80 of the 750 caisses are located outside Quebec and are auxiliary, nonvoting members of The Federation.

for the caisses, particularly with respect to the their capital adequacy, general reserves, liquid assets, and credit and investment activities. The Federation also is the holding company for CCD and the nonbanking companies of the Desjardins Group. CCD primarily provides clearing services and funding for the caisses and The Federation, and it directly holds all the shares of Desjardins Holdings, the parent company of Desjardins FSB.

The Desjardins Group prepares consolidated financial statements and has total consolidated assets equivalent to approximately $67 billion. It is the largest financial organization in Quebec and the sixth largest in Canada.[3] Desjardins Bank would be the 200th largest banking organization in Florida, controlling total deposits of $74.6 million, which represents less than 1 percent of total deposits in depository institutions in the state.[4] On consummation of the proposed conversion, the Desjardins Group would be a qualifying foreign banking organization.

Competitive and Convenience and Needs Considerations

The BHC Act prohibits the Board from approving an application under section 3 of the BHC Act if the proposal would result in a monopoly. The BHC Act also prohibits the Board from approving a proposed bank acquisition that would substantially lessen competition in any relevant banking market, unless the Board finds that the anticompetitive effects of the proposal are clearly outweighed in the public interest by the probable effects of the proposal in meeting the convenience and needs of the community to be served.[5]

The proposal involves a charter conversion from a savings association to a bank. The proposed charter conversion would result in neither an expansion of operations nor the acquisition of an additional depository institution in the United States. Based on all the facts of record, the Board concludes that consummation of the proposal would not have a significantly adverse effect on competition or on the concentration of banking resources in any relevant banking market, and that competitive considerations are consistent with approval.

The Board also is required to consider the convenience and needs of the community to be served by the depository institutions involved in a proposal, including their records of performance under the Community Reinvestment Act ("CRA").[6] Desjardins FSB received an "outstanding" CRA performance rating from the Office of Thrift Supervision ("OTS") at its most recent examination, as of September 2001. Based on this rating and other facts of record, the Board concludes that considerations related to the convenience and needs of the communities to be served are consistent with approval of this proposal.

3. Asset data are as of June 30, 2003, and are based on exchange rates then in effect.

4. Deposit and ranking data are as of June 30, 2002. In this context, depository institutions include commercial banks, savings banks, and savings associations.

5. 12 U.S.C. § 1842(c).

6. 12 U.S.C. § 2901 *et seq.*

Financial, Managerial, and Supervisory Considerations

The BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and banks involved in a bank acquisition proposal. In assessing the financial and managerial strength of the Desjardins Group and its affiliates, the Board has reviewed information concerning the proposal and the condition of the Desjardins Group and the entities that comprise the Desjardins Group, including information described below, from the appropriate home country authority that supervises the Desjardins Group, The Federation, and CCD; financial information from the Desjardins Group, The Federation, CCD, Desjardins Holdings, and Desjardins FSB; and reports of examination from the OTS assessing the financial and managerial resources of the organizations' U.S. operations. The Desjardins Group's capital levels exceed the minimum levels that would be required under the Basel Capital Accord and are considered equivalent to the capital levels that would be required of a United States banking organization under similar circumstances. Based on all the facts of record, the Board concludes that the financial and managerial resources and future prospects of the organizations involved in this proposal are consistent with approval.

Section 3 of the BHC Act also provides that the Board may not approve an application involving a foreign bank unless the bank is "subject to comprehensive supervision or regulation on a consolidated basis by the appropriate authorities in the bank's home country."[7] As provided in Regulation Y, the Board determines whether a foreign bank is subject to consolidated home country supervision under the standards set forth in Regulation K.[8] The Board's Regulation K provides that a foreign bank may be considered to be subject to comprehensive supervision or regulation on a consolidated basis if the Board determines that the home country supervisor receives sufficient information on the foreign bank's worldwide operations, including the bank's relationship to any affiliate, to assess the bank's overall financial condition and compliance with law and regulation.[9] For purposes of the proposal, this determination is being made for The Federation and CCD.

The Inspector General of Financial Institutions in

7. 12 U.S.C. § 1842(c)(3)(B).

8. 12 C.F.R. 225.13(a)(4).

9. In making this determination, the Board considers, among other factors, the extent to which the home country supervisor:

(a) ensures that the bank has adequate procedures for monitoring and controlling its activities worldwide;
(b) obtains information on the condition of the bank and its subsidiaries and offices outside the home country through regular reports of examination, audit reports, or otherwise;
(c) obtains information on the dealings and relationships between the bank and its affiliates, both foreign and domestic;
(d) receives from the bank financial reports that are consolidated on a worldwide basis, or comparable information that permits analysis of the bank's financial condition on a worldwide, consolidated basis;
(e) evaluates prudential standards, such as capital adequacy and risk asset exposure, on a worldwide basis. *See* 12 C.F.R. 211.24(c)(1)(ii).

Quebec, an agency official under the jurisdiction of Quebec's Ministry of Finance, is the supervisor for The Federation and CCD.[10] In this capacity, the Inspector General directly supervises and examines The Federation and CCD and oversees The Federation's direct supervision and examination of the caisses. The Inspector General is responsible for developing regulations to govern The Federation and CCD, and The Federation, with the concurrence of the Inspector General, is responsible for developing standards for the caisses. Prudential regulations and standards address capital adequacy,[11] asset classification and provisioning, single-borrower exposures, liquidity, equity investments, and transactions with affiliates.[12] Quebec law vests the Inspector General with a range of enforcement powers to ensure compliance with these regulations and standards.[13]

The Inspector General conducts annual on-site examinations of The Federation and CCD that include risk management systems, financial condition, policies and practices, internal control systems, and regulatory compliance. The examinations of The Federation also include an assessment of its responsibility for supervising and auditing the caisses. The examinations of CCD focus on asset quality, earnings, capital, and information systems. The Inspector General may conduct additional targeted examinations of The Federation or CCD as the Inspector General deems necessary.

The Federation and CCD provide the Inspector General with annual financial statements. In addition, The Federation files with the Inspector General quarterly reports on its capital adequacy and liquidity, as well as financial results on a stand-alone basis and as consolidated with the caisses. CCD also files with the Inspector General quarterly reports on related-party and affiliate transactions.

The Bureau of Supervision and Financial Security, a bureau in The Federation, evaluates the operations and financial condition of the caisses through on-site examinations and off-site reviews. On-site examinations of each caisse are conducted at least every 18 months and focus on a review of financial policies and practices, asset quality and capital adequacy, management, internal control systems, and compliance with governing laws and standards. Examination results are reported to the Inspector General and to the board of directors of the caisse. The Federation also receives periodic reports from each caisse, including information relating to interest-rate-risk exposure, major loans and other significant risks acquired by the caisse, loan loss provision, credit management, and annual and monthly financial statements. Inspector General and Federation representatives meet periodically to discuss financial and supervisory information on the caisses.

The Federation oversees and coordinates the operations of all the entities that comprise the Desjardins Group in various other ways, including director interlocks, policies and procedures, regular internal reporting requirements, conduct of internal audits, reviews of internal and external audit results, and on-site examinations. The Federation uses and would continue to use these means for overseeing the activities and operations of Desjardins Bank.

The Federation establishes internal audit policies, procedures, and plans for the entities that comprise the Desjardins Group, which are subject to review by the Inspector General. An office of the Bureau of Supervision and Financial Security conducts audits of the caisses, verifying financial statements and assessing, among other things, the adequacy of internal controls. Another office of the bureau audits The Federation and ensures that the activities, products, and services of the Desjardins Group's entities are consistent with The Federation's operational and strategic plans. CCD and the nonbanking subsidiaries of The Federation have their own internal auditors. All internal audit results are provided to the Inspector General. In addition, The Federation provides the Inspector General with periodic reports on the activities of auditing staff.

The Desjardins Group, The Federation, and CCD also undergo annual external audits. External auditors must be members in good standing of a professional association of accountants and must comply with the auditing standards of the Canadian Institute of Chartered Accountants. External auditors must attest to the accuracy of financial statements and report on situations or transactions contrary to sound and prudent management or applicable laws or regulations. All external audit results are provided to the Inspector General. External auditors, internal auditors, and Inspector General representatives meet periodically to share information.

The Inspector General assesses the Desjardins Group through its direct supervision of The Federation and CCD and through a review of information, including examina-

---

10. As noted above, Quebec law governs the establishment, operation, and activities of the caisses, The Federation, and CCD. These entities are supervised by the Inspector General, and Canada's federal supervisor of financial institutions, the Office of the Supervisor of Financial Institutions ("OSFI"), has no role in supervising the caisses, The Federation, or CCD. Certain of the nonbanking subsidiaries in the Desjardins Group, however, are regulated by both OSFI and the authorities of the various Canadian provinces in which they operate.

11. Quebec law requires the Desjardins Group on a consolidated basis to meet Basel capital guidelines as set forth by the Inspector General, which require a total risk-based capital ratio of 8 percent. The caisses have agreed to maintain CCD's total risk-based capital ratio at 8.5 percent and its capital-to-liabilities ratio at a minimum of 5 percent, whichever is higher. Each caisse is required by The Federation to maintain capital levels at least equal to the greater of 5.5 percent of growth assets or 8.8 percent of risk-weighted assets.

12. Regulations and standards generally require that transactions with affiliates be on arm's-length terms.

13. As of February 1, 2004, the entities of the Desjardins Group supervised by the Inspector General will be supervised by a newly created single financial regulator, the National Agency for Regulation of the Financial Sector. This entity was created under a Quebec statute enacted in December 2002 that mandates the merger of five administrative bodies, including the Inspector General, into a new agency under the auspices of the Quebec Ministry of Finance. The functions now performed by the Inspector General will be performed by the Solvency Regulation Directorate, one of seven directorates that will report to the new agency head. Inspector General personnel are to be transferred to the new agency.

tion reports, developed by The Federation on the individual caisses. The Desjardins Group regularly provides the Inspector General with financial information, on a consolidated and unconsolidated basis, as well as with a copy of the Desjardins Group's annual report and business plans, bylaws, and similar corporate information on entities comprising the Desjardins Group.

The Inspector General has direct supervisory responsibility for the insurance and trust subsidiaries of The Federation. The securities-related subsidiaries are supervised by a separate Quebec securities regulator. For purposes of supervising The Federation, the Inspector General may examine or investigate any subsidiary of The Federation, if deemed necessary, and has the authority to require special audits and may appoint an external auditor. The Inspector General shares supervisory information with other regulators that exercise jurisdiction over the subsidiaries of The Federation.

For the reasons set forth above, and based on all the facts of record, the Board concludes that The Federation and CCD are subject to comprehensive supervision on a consolidated basis by their home country supervisors, and that supervision of the Desjardins Group is consistent with approval.

Section 3 of the BHC Act also requires the Board to determine that a foreign bank has provided adequate assurances that it will make available to the Board such information on its operations and activities and those of its affiliates that the Board deems appropriate to determine and enforce compliance with the BHC Act.[14] The Board has reviewed the restrictions on disclosure in relevant jurisdictions in which the entities that comprise the Desjardins Group operate and has communicated with relevant government authorities concerning access to information. In addition, the Desjardins Group, The Federation, and CCD have committed to make available to the Board such information on the operations of the Group, including all affiliated entities, that the Board deems necessary to determine and enforce compliance with the BHC Act and other applicable federal law and to cooperate with the Board to obtain any waivers or exemptions that may be necessary to enable these entities to make such information available to the Board. In addition, subject to certain conditions, the Inspector General may share information on the Desjardins Group's operations with other supervisors, including the Board.

In light of the commitments provided by the Desjardins Group, The Federation, and CCD, and other facts of record, the Board concludes that the Desjardins Group has provided adequate assurances of access to any necessary information the Board may request. For these reasons, and based on all the facts of record, the Board concludes that the supervisory factors it is required to consider under section 3(c)(3) of the BHC Act are consistent with approval.

14. *See* 12 U.S.C. § 1842(c)(3)(A); 12 C.F.R. 225.13(a)(3).

Conclusion

Based on the foregoing, the Board has determined that the applications should be, and hereby are, approved. In reaching this conclusion, the Board considered all the facts of record in light of the factors that it is required to consider under the BHC Act and other applicable statutes.

The Board's approval is conditioned on compliance by the Desjardins Group, The Federation, CCD, and Desjardins Holdings with all commitments made in connection with the applications, and specifically the commitments on access to information and on the Board's receiving access to information on the operations or activities of the Desjardins Group and the entities that comprise the Desjardins Group that the Board determines to be appropriate to determine and enforce compliance with applicable federal statutes. All the commitments and conditions on which the Board has relied in granting its approval, including the commitments and conditions specifically described above, are conditions imposed in writing by the Board in connection with its findings and decisions and, as such, may be enforced in proceedings under applicable law.

The transaction shall not be consummated before the fifteenth calendar day after the effective date of this order or later than three months after the effective date of this order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of Atlanta, acting pursuant to delegated authority.

By order of the Board of Governors, effective December 4, 2003.

Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Gramlich, Bies, Olson, Bernanke, and Kohn.

ROBERT DEV. FRIERSON
Deputy Secretary of the Board

The PNC Financial Services Group, Inc.
Pittsburgh, Pennsylvania

PNC Bancorp, Inc.
Wilmington, Delaware

Order Approving the Acquisition of a Bank Holding Company and Merger of Bank Holding Companies

The PNC Financial Services Group, Inc. ("PNC Financial"), a financial holding company within the meaning of the Bank Holding Company Act ("BHC Act"), has requested the Board's approval under section 3 of the BHC Act (12 U.S.C. § 1841 *et seq.*), to acquire all the voting shares of United National Bancorp ("United National"), and thereby indirectly acquire UnitedTrust Bank, both in Bridgewater, New Jersey. PNC Bancorp, Inc. ("PNC Bancorp"), a bank holding company controlled by PNC Financial, also has requested the Board's approval to merge with United National.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published

(68 *Federal Register* 55,057 (2003)). The time for filing comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in section 3 of the BHC Act.

PNC Financial, with total consolidated assets of approximately $72.3 billion, is the 20th largest commercial banking organization in the United States. PNC Financial's subsidiary depository institutions operate in Delaware, Florida, Indiana, Kentucky, New Jersey, and Pennsylvania. In Pennsylvania, PNC Financial is the largest commercial banking organization, controlling $24.4 billion in deposits, representing approximately 13 percent of total deposits in depository institutions in the state ("state deposits").[1] In New Jersey, PNC Financial is the third largest commercial banking organization, controlling $13.3 billion in deposits, representing 7.2 percent of state deposits.

United National also operates a subsidiary depository institution in Pennsylvania and New Jersey. In Pennsylvania, United National is the 142nd largest commercial banking organization, controlling deposits of approximately $155 million, representing less than 1 percent of state deposits. In New Jersey, United National is the 19th largest commercial banking organization, controlling $1.5 billion in deposits, representing less than 1 percent of state deposits. On consummation of this proposal, PNC Financial would remain the largest commercial banking organization in Pennsylvania, controlling deposits of approximately $24.6 billion, representing approximately 13 percent of state deposits, and the third largest commercial banking organization in New Jersey, controlling deposits of $14.5 billion, representing approximately 8 percent of state deposits.

Interstate Analysis

Section 3(d) of the BHC Act allows the Board to approve an application by a bank holding company to acquire control of a bank located in a state other than the home state of such bank holding company if certain conditions are met.[2] For purposes of the BHC Act, the home state of PNC Financial is Pennsylvania, and UnitedTrust Bank is located in New Jersey and Pennsylvania.[3] Based on a review of all the facts of record, including relevant state statutes, the Board finds that all the conditions for an interstate acquisition enumerated in section 3(d) are met in this case.[4] In light of all the facts of record, the Board is permitted to approve the proposal under section 3(d) of the BHC Act.

Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or would be in furtherance of any attempt to monopolize the business of banking in any relevant market. The BHC Act also prohibits the Board from approving a proposed bank acquisition that would substantially lessen competition in any relevant banking market unless the anticompetitive effects of the proposal are clearly outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served.[5]

PNC Financial and United National compete directly in the Lehigh Valley, Pennsylvania, and Metropolitan NY–NJ–PA–CT ("New York") banking markets.[6] Neither market is concentrated, and numerous competitors would remain in these markets after consummation of the transaction. Consummation of the proposal would also be consistent with the Department of Justice Merger Guidelines ("DOJ Guidelines").[7] PNC Financial would remain the fourth largest commercial banking organization in the Lehigh Valley banking market, controlling deposits of $661.5 million, representing 8.1 percent of total deposits in depository institutions in the market ("market deposits"),[8]

1. Asset, deposit, and ranking data are as of June 30, 2002. In this context, depository institutions include commercial banks, savings banks, and savings associations.

2. A bank holding company's home state is that state in which the total deposits of all banking subsidiaries of such company were the largest on the later of July 1, 1966, or the date on which the company became a bank holding company. 12 U.S.C. § 1841(o)(4)(C).

3. For purposes of section 3(d) of the BHC Act, the Board considers a bank to be located in the states in which the bank is chartered, headquartered, or operates a branch.

4. *See* 12 U.S.C. § 1842(d)(1)(A) and (B), 1842(d)(2)(A) and (B). PNC Financial is adequately capitalized and adequately managed, as defined by applicable law. In addition, on consummation of the proposal, PNC Financial would control less than 10 percent of the total amount of deposits of insured depository institutions in the United States and less than 30 percent of the total deposits of insured depository institutions in each of New Jersey and Pennsylvania. *See* N.J. Stat. Ann. § 17:9A-413 (2003). New Jersey and Pennsylvania do not have minimum age requirements applicable to the proposal.

5. 12 U.S.C. § 1842(c)(1).

6. The Lehigh Valley banking market is defined as Carbon, Lehigh, and Northampton Counties in Pennsylvania. The New York banking market is defined as New York City; Dutchess, Nassau, Orange, Putnam, Rockland, Suffolk, Sullivan, Ulster, and Westchester Counties, all in New York; Bergen, Essex, Hudson, Hunterdon, Middlesex, Monmouth, Morris, Ocean, Passaic, Somerset, Sussex, Union, and Warren Counties, and portions of Mercer County, all in New Jersey; Pike County in Pennsylvania; and Fairfield County and portions of Litchfield and New Haven Counties, all in Connecticut.

7. Under the DOJ Guidelines, 49 *Federal Register* 26,823 (1984), a market is considered unconcentrated if the post-merger HHI is below 1000, and a market is considered moderately concentrated if the post-merger HHI is between 1000 and 1800. The Department of Justice has informed the Board that a bank merger or acquisition generally will not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by more than 200 points. The Department of Justice has stated that the higher than normal HHI thresholds for screening bank mergers for anticompetitive effects implicitly recognize the competitive effects of limited-purpose lenders and other nondepository financial institutions.

8. Market share data are as of June 30, 2003, and are based on calculations in which the deposits of thrift institutions are included at 50 percent. The Board previously has indicated that thrift institutions have become, or have the potential to become, significant competitors of commercial banks. *See, e.g., Midwest Financial Group,* 75 *Federal Reserve Bulletin* 386 (1989); *National City Corporation,* 70 *Federal Reserve Board* 743 (1984). Thus, the Board regularly has included thrift deposits in the market share calculation on a 50 percent weighted basis. *See, e.g., First Hawaiian, Inc.,* 77 *Federal Reserve Bulletin* 52 (1991).

and the HHI would increase 24 points to 1193. PNC Financial would become the seventh largest commercial banking organization in the New York banking market, controlling deposits of approximately $12.2 billion, representing 2.2 percent of market deposits, and the HHI would increase 2 points to 981.

Based on all the facts of record, the Board concludes that consummation of the proposal would not have a significantly adverse effect on competition or on the concentration of banking resources in any relevant banking market, and that competitive considerations are consistent with approval.

Financial, Managerial, and Other Supervisory Factors

Section 3 of the BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and banks involved in the proposal and certain other supervisory factors. The Board has considered, among other things, confidential reports of examination, other confidential supervisory information received from the primary federal banking agency that supervises each institution, and public comments.[9] PNC Financial is and will remain well capitalized on consummation of the proposal. Based on all the facts of record, the Board has concluded that considerations relating to the financial and managerial resources and future prospects of PNC Financial, PNC Bancorp, United National, and the institutions involved are consistent with approval, as are the other supervisory factors under the BHC Act.[10]

Convenience and Needs Considerations

In acting on a proposal under section 3 of the BHC Act, the Board is required to consider the effects of the proposal on the convenience and needs of the communities to be served and to take into account the records of the relevant insured depository institutions under the Community Reinvestment Act ("CRA").[11] The CRA requires the federal financial supervisory agencies to encourage financial institutions to help meet the credit needs of the local communities in which they operate, consistent with their safe and sound operation, and requires the appropriate federal financial supervisory agency to take into account an institution's record of meeting the credit needs of its entire community, including low- and moderate-income ("LMI") neighborhoods, in evaluating bank expansionary proposals. In reviewing the convenience and needs factor and the CRA performance records of the subsidiary depository institutions of PNC Financial and United National, the Board also has carefully considered public comments submitted in connection with this proposal that criticize PNC Financial's lending record with respect to minorities and PNC Financial's failure to publicly identify the number and location of bank branches that it might close after consummation of this transaction.

A. CRA Performance Evaluations

As provided in the CRA, the Board has evaluated the convenience and needs factor in light of examinations by the appropriate federal supervisors of the CRA performance records of the relevant insured depository institutions. An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed, on-site evaluation of the institution's overall record of performance under the CRA by its appropriate federal supervisor.[12]

PNC Financial's lead bank, PNC Bank, received an "outstanding" rating at its most recent CRA performance evaluation by the OCC, as of April 15, 2002.[13] PNC

9. A commenter expressed concerns about PNC Financial's managerial record in light of recent enforcement actions against the organization, including enforcement actions by the Department of Justice ("DOJ"), Federal Reserve Bank of Cleveland ("Reserve Bank") and the Office of the Comptroller of the Currency ("OCC"). The enforcement actions required PNC Financial to implement risk management systems, internal controls, and compliance procedures to ensure the continued safe and sound operation of the PNC Financial organization. PNC Financial has developed a new ethics policy and training program, an enterprisewide risk management program, and enhanced credit administration procedures, internal controls, and corporate governance procedures. After a careful review of PNC Financial's efforts to meet the requirements of the enforcement actions, the Federal Reserve and the OCC terminated their respective Written Agreements in September 2003.

In announcing its deferred prosecution agreement in June 2003, the DOJ noted that PNC Financial and PNC ICLC Corp., also in Wilmington, the PNC Financial affiliate involved in the transactions that gave rise to the enforcement actions, had fully accounted for their behavior in the transactions by providing for restitution to victims, acknowledging responsibility for the conduct of the organization, demonstrating compliance with securities law and generally accepted accounting principles, and pledging continued cooperation with respect to investigations of the transactions. The Board has reviewed the managerial factors in this case in light of the enforcement actions and the steps taken by PNC Financial to address these issues. The Board will carefully monitor PNC Financial's efforts to comply with its agreement with the DOJ and its efforts to meet the Board's standards.

10. The commenter also expressed concern about allegations of wrongful termination and employment discrimination by former employees of PNC Bank, National Association, Pittsburgh, Pennsylvania ("PNC Bank"). These contentions and concerns are outside the limited statutory factors that the Board is authorized to consider when reviewing an application under the BHC Act. *See Western Bancshares, Inc. v. Board of Governors,* 480 F.2d 749 (10th Cir. 1973). The Board also notes that the Equal Employment Opportunity Commission has jurisdiction to determine whether banking organizations like PNC Financial are in compliance with federal equal employment opportunity statutes under the regulations of the Department of Labor.

11. 12 U.S.C. §2901 *et seq.*

12. *See Interagency Questions and Answers Regarding Community Reinvestment,* 66 *Federal Register* 36,620 and 36,639 (2001).

13. The overall rating for PNC Bank was a composite of its state/multistate ratings. In assigning an overall rating to PNC Bank, examiners weighted the bank's performance in some areas more heavily than others based on the percentage of the bank's overall deposits in those areas. In particular, approximately 88 percent of the deposits controlled by PNC Bank were in three areas, Pennsylvania, New Jersey, and the Philadelphia multistate Metropolitan Statistical Area ("MSA") ("Philadelphia MSA"). In evaluating PNC Bank's CRA performance, examiners considered the bank's residential mortgage lending reportable under the Home Mortgage Disclosure Act ("HMDA") (12 U.S.C. §2801 *et seq.*) and its small business lending

Financial's other depository institution, PNC Bank, Delaware, New Castle, Delaware, also received an "outstanding" rating at is most recent CRA performance evaluation by the Federal Deposit Insurance Corporation ("FDIC"), as of January 24, 2000. UnitedTrust Bank, the only subsidiary depository institution controlled by United National, received a "satisfactory" rating at its most recent CRA performance evaluation by the Federal Reserve Bank of New York, as of March 4, 2002.

B. CRA Performance of PNC Bank

1. Lending Test

Overall, OCC examiners rated PNC Bank "high satisfactory" for lending, noting that the bank demonstrated excellent lending activity, with good distribution of loans across geographic boundaries and to various borrowers. PNC Bank's lending data also demonstrated strong community development lending for affordable housing, community services, and economic revitalization.

Pennsylvania. PNC Bank's lending rating for Pennsylvania also was "high satisfactory."[14] The lending, investment, and service test ratings for PNC Bank for Pennsylvania were based primarily on the bank's performance in the two assessment areas that were subject to full-scope reviews, the Pittsburgh and Scranton/Wilkes-Barre ("Scranton") assessment areas, where approximately 77 percent of the bank's deposits in Pennsylvania were located. Examiners noted that PNC Bank's geographic distribution of loans was good. Examiners considered the volume of home mortgage lending by the bank to be excellent and the volume of small business lending to be good throughout PNC Bank's assessment areas. Community development lending also was found to have had a positive impact on PNC Bank's rating in Pennsylvania under the lending test. In the assessment areas subject to a full-scope review, PNC Bank originated or purchased approximately 61,600 small business, community development, and HMDA-reportable loans totaling approximately $3.7 billion during the review period. Of the loans in these assessment areas, HMDA-reportable loans accounted for 47,488 loans totaling $1.4 billion. In the rest of the state during the review period, PNC Bank originated or purchased 39,364 HMDA-reportable loans totaling approximately $2.3 billion.

Examiners reported that the percentage of home purchase loans by PNC Bank in the Pittsburgh assessment area's low-income census tracts was comparable with the percentage of owner-occupied housing units in those tracts. Examiners also noted that, in the Pittsburgh and Scranton assessment areas, the percentage of home purchase loans by PNC Bank in moderate-income census tracts was comparable with the percentage of owner-occupied housing units in those areas. Based on market share data for 2000 in the bank's Pittsburgh assessment area, PNC Bank ranked first for number of home purchase, home improvement, and home refinance loans. In the Scranton assessment area, PNC Bank ranked fifth for home purchase loans and first for home improvement and home refinance loans.

Examiners stated that PNC Bank had developed bank-wide lending programs that demonstrated flexibility in helping to meet the credit needs of the community, such as the Basic Loan Program, which offered expanded credit criteria, extended terms, and reduced minimum loan amounts to LMI borrowers seeking home equity installment loans, personal unsecured loans, and home equity lines of credit. The bank also had similar products tailored to its Pennsylvania assessment areas, including the Primary Access Mortgage Program, a home purchase loan program sponsored by the Urban Redevelopment Authority of Pittsburgh, and other partnerships with municipal governmental loan programs.

Examiners reported that PNC Bank originated 13,678 small loans to businesses totaling approximately $1.7 billion in the Pennsylvania assessment areas subject to full-scope reviews during the review period. PNC Bank ranked fifth in the Pittsburgh assessment area and sixth in the Scranton assessment area, which examiners found commendable in light of the competition faced by the bank from large lenders that provided small business credit cards. Examiners also commented that PNC Bank's market share for small loans to businesses in low-income geographies in the Pittsburgh and Scranton assessment areas exceeded the bank's overall market share for this loan product in those assessment areas. In the rest of the state during the review period, PNC Bank originated 8,540 small loans to businesses totaling approximately $888 million.

Examiners also concluded that PNC Bank demonstrated a good volume of loans to small businesses in the assessment areas receiving a full-scope review, because the bank's market share for loans to small businesses in the Pittsburgh and Scranton assessment areas exceeded its overall market share for small business loans in those assessment areas.

According to examiners, PNC Bank's community development lending record in Pittsburgh was good, and its record in Scranton was excellent. In these assessment areas, the bank originated 87 community development loans during the review period totaling $87.9 million. For the same period, PNC Bank originated 27 community development loans totaling approximately $21.2 million in the rest of Pennsylvania. Examiners favorably noted the bank's origination of small business loans for community development. These loans included $4.3 million in construction financing to redevelop public housing in a low-income area in Pittsburgh and to develop 86 Hope VI

---

from January 1, 1998, through December 31, 2001, and the bank's community development lending from July 6, 1998, through December 31, 2001 (together, the "review period").

14. PNC Bank's ratings for Pennsylvania did not include data from the bank's branches in the Philadelphia MSA.

rental units, two-thirds of which will be affordable for LMI residents.[15]

New Jersey. PNC Bank also received a "high satisfactory" rating under the lending test in New Jersey.[16] The lending, investment, and service test ratings for PNC Bank in New Jersey were based primarily on the bank's performance in the two assessment areas that were subject to full-scope reviews, the Bergen–Passaic and Newark assessment areas, where approximately 48 percent of the bank's deposits in New Jersey were located. Examiners concluded that PNC Bank's performance under the lending test was good in the Bergen–Passaic assessment area and excellent in the Newark assessment area, where the bank demonstrated a high level of community development lending.

In the two assessment areas, PNC Bank originated or purchased approximately 27,400 small business, community development, and HMDA-reportable loans totaling approximately $2.5 billion during the review period, of which 20,606 loans totaling approximately $1.9 billion were HMDA-reportable. In the rest of the state during the review period, PNC Bank originated or purchased 27,966 HMDA-reportable loans totaling approximately $2.4 billion. Examiners noted that the percentage of home purchase, home improvement, and home refinance loans by PNC Bank to LMI census tracts in the Bergen-Passaic assessment area significantly or substantially exceeded the percentage of owner-occupied units in this area. Examiners characterized the geographic distribution of these categories of loans as excellent. With respect to home purchase, home improvement, and home refinance loans in the Newark assessment area, examiners considered the bank's geographic distribution to be adequate. In addition to offering its bankwide lending programs with flexible terms to meet the community's credit needs, PNC Bank offered products that were tailored to the needs of its New Jersey assessment areas, such as Hurricane Floyd Loans and Micro Loans.[17]

Examiners reported that PNC Bank originated 6,795 small loans totaling $578.5 million during the review period to businesses in the assessment areas subject to full-scope review. Examiners characterized the geographic distribution of these loans as excellent in both the Bergen–Passaic and Newark assessment areas. In the rest of the state during the review period, examiners reported that PNC Bank originated 6,194 small loans to businesses totaling approximately $613.1 million. In the Bergen-Passaic assessment area, the percentage of PNC Bank's loans to small businesses in LMI census tracts significantly exceeded the percentage of small businesses in these tracts. In each of these assessment areas, PNC Bank's market share of loans to small businesses was almost twice as large as its market share of loans to businesses of all sizes.

According to examiners, the level and type of community development lending by PNC Bank was responsive to the credit needs of the communities it served in its New Jersey assessment areas. In the assessment areas subject to full-scope review, PNC Bank originated 25 community development loans totaling $55.9 million during the review period. In the rest of the state, PNC Bank originated 11 community development loans totaling approximately $19.7 million during the review period. These loans included a $15 million loan to the operator of a large apartment complex in a low-income community in Newark that provided housing for elderly or disabled LMI tenants, and a line of credit to provide working capital to a Bergen-Passaic community development corporation that administered programs beneficial to LMI individuals by providing housing, a men's shelter, and job development and adult education programs.

Philadelphia MSA. PNC Bank's lending rating for the Philadelphia MSA also was "high satisfactory,"[18] with examiners commending PNC Bank's geographic distribution of loans. PNC Bank originated or purchased 50,238 small business, community development, and HMDA-reportable loans totaling approximately $3.9 billion in the Philadelphia MSA during the review period. Of the loans in this assessment area, 38,577 loans totaling approximately $2.4 billion were HMDA-reportable. Examiners noted that PNC Bank's market share for HMDA-reportable loans in LMI geographies was more than its overall market share for these loans in the assessment area. The bank's percentage of home purchase loans in LMI census tracts exceeded the percentage of owner-occupied units in those geographies. In addition, the bank demonstrated a good distribution of HMDA-reportable loans to borrowers of all income levels.

PNC Bank offered bankwide and locally adapted loan products that demonstrated flexibility in meeting the credit needs of communities in the Philadelphia MSA. The local initiatives included PNC Bank's Philadelphia Home Improvement Loan ("PHIL") program, a program sponsored by the City of Philadelphia to provide home purchase loans with 3 percent interest rates and no home equity requirements to residents of LMI areas. During the review period, PNC Bank originated 233 of these loans, representing 61 percent of PHIL loans by all participating lenders.

Examiners stated that PNC Bank had a good volume and an excellent geographic distribution of small loans to businesses in the Philadelphia MSA. The bank originated 11,571 small loans to businesses totaling approximately

15. Hope VI is a Department of Housing and Urban Development program designed, in part, to lessen concentrations of poverty by placing public housing in nonpoverty neighborhoods and promoting mixed-income communities.

16. PNC Bank's ratings for New Jersey did not include data from the bank's branches in the Philadelphia MSA.

17. The Hurricane Floyd Loans were offered to New Jersey residents in the fall of 1999. These loans products included flexible underwriting criteria, below-market interest rates, and 90-day deferrals of initial payments. PNC Bank's Micro Loans were offered in connection with the City of Paterson's microlending program, in which a 50 percent guarantee by the city allowed small businesses in predominantly LMI communities to qualify for otherwise unavailable small loans.

18. PNC Bank's Philadelphia MSA assessment area included the Philadelphia MSA, except Salem County, New Jersey.

$1.4 billion during the review period. The percentage of small loans by PNC Bank to businesses in LMI geographies was comparable with the percentage of businesses in those geographies. The bank's market share of small loans to businesses in LMI areas was significantly greater than its market share for small loans to businesses in the Philadelphia MSA overall.

According to examiners, PNC Bank's community development lending in the Philadelphia MSA during the review period was considered good because it addressed a broad array of community needs. Examiners reported that PNC Bank originated 89 community development loans to 50 borrowers during the review period totaling $28.4 million. Approximately 54 percent of these loans related to affordable housing, which had been an identified community credit need. A large number of the bank's community development loans also went to various nonprofit organizations that provided services to LMI individuals and families. Examiners noted that several of PNC Bank's community development loans were complex, and their structure required coordination among multiple lenders, community organizations, and governmental entities. The bank's community development lending activities included $1.5 million to help finance a collaborative effort to build a grocery store in an LMI neighborhood in Philadelphia. The project involved PNC Bank, a local community development corporation, the City of Philadelphia, and Local Initiatives Support Corporation. PNC Bank also provided a $2 million line of credit to Collaborative Lending Initiative, a community development financial institution ("CDFI") that lends money to affordable housing developers.

2. Investment Test

Overall, PNC Bank received an "outstanding" rating under the investment test. Examiners reported that the bank's community development investments demonstrated an excellent level of responsiveness to specific credit needs of the community.[19] According to examiners, PNC Bank made 833 qualifying community development investments and grants totaling approximately $88.5 million in those areas in Pennsylvania and New Jersey subject to full-scope reviews and in the Philadelphia MSA during the CRA evaluation period. These investments and grants included investments in low-income housing tax credits for projects that created affordable housing units, a collaboration with the New Jersey Department of Community Affairs to contribute to predevelopment costs for the rehabilitation of a rental apartment building for low-income families, and an investment in a large CDFI to support its affordable housing programs in the Philadelphia area.

19. In its Pennsylvania, New Jersey, and Philadelphia MSA assessment areas, PNC Bank received ratings of "outstanding," "high satisfactory," and "outstanding," respectively, for the investment test. The evaluation period for PNC Bank's performance under the investment test was July 6, 1998, through March 31, 2002.

3. Service Test

PNC Bank received an "outstanding" rating under the service test. Examiners noted that the bank's systems were readily accessible to geographies and individuals of different income levels, and that the bank provided an excellent level of community development service that assisted LMI individuals and areas.[20] In those areas in Pennsylvania and New Jersey subject to full-scope reviews and in the Philadelphia MSA, PNC Bank operated 379 branches during the review period, of which approximately 21 percent were in LMI geographies. In addition, PNC Bank opened 18 branches and closed 40 branches in those areas. Examiners reported that the bank's record of opening and closing branches did not adversely affect the accessibility of systems for delivering banking services in the Pittsburgh, Scranton, Bergen–Passaic, Newark, or Philadelphia MSA assessment areas. In the Pennsylvania and New Jersey areas subject to full-scope reviews and in the Philadelphia MSA during the review period, the bank increased by 44 the number of ATMs it operated in LMI geographies.

C. HMDA and Fair Lending Record

The Board also has carefully considered PNC Financial's lending record in light of comments on HMDA data reported by its subsidiaries. The commenter alleged that PNC Financial denies a higher percentage of loan requests by minority applicants than does the aggregate of all lenders ("aggregate") in the following MSAs: Bergen–Passaic; Harrisburg, Pennsylvania; Jersey City, New Jersey; Newark; Newburgh, Pennsylvania–New York; Philadelphia; Pittsburgh; Louisville, Kentucky–Indiana; and Wilmington.[21] The 2001 and 2002 HMDA data[22] indicate that PNC Financial generally had a somewhat better record than the aggregate for lending to African Americans and a somewhat worse record than the aggregate for lending to Hispanics, as measured by denial disparity ratios.[23] The

20. In its Pennsylvania, New Jersey, and Philadelphia MSA assessment areas, PNC Bank received ratings of "outstanding," "high satisfactory," and "outstanding," respectively, for the service test. The evaluation period for PNC Bank's performance under the service test was July 6, 1998, through March 31, 2002.

21. The commenter also alleged that the data PNC Financial submitted to the Board in response to its comment were inconsistent with data reported under HMDA. PNC Financial noted that the data in the response were derived from its HMDA data. The discrepancies noted by the commenter appear to have resulted from different categorizations of the data by PNC Financial in its response. For purposes of the response, PNC Financial designated the race for joint loan applicants based on the race of the primary applicant. For purposes of HMDA, however, joint applicants are categorized as "joint minority" applicants if one applicant is white and other applicant is a minority and are so categorized based on the information provided by the primary applicant if the individuals are members of different minority groups.

22. The Board analyzed 2001 and 2002 HMDA data for PNC Financial's lending affiliates in the MSAs cited by the commenter and in the four statewide assessment areas that include these markets. The Board's review included the HMDA data reported by PNC Bank and PNC Bank, Delaware.

23. The denial disparity ratio compares the denial rate for minority loan applicants with the rate for white applicants.

data also indicate, however, that PNC Financial generally originated a higher percentage of its HMDA-reportable loans to applicants in minority census tracts than the aggregate in 2001 and 2002.[24]

The Board is concerned when HMDA data for an institution indicate disparities in lending and believes that all banks are obligated to ensure that their lending practices are based on criteria that ensure not only safe and sound lending, but also equal access to credit by creditworthy applicants regardless of their race or income level. The Board recognizes, however, that HMDA data alone provide an incomplete measure of an institution's lending in its community because these data cover only a few categories of housing-related lending. HMDA data, moreover, provide only limited information about the covered loans.[25] HMDA data, therefore, have limitations that make them an inadequate basis, absent other information, for concluding that an institution has not assisted adequately in meeting its community's credit needs or has engaged in illegal lending discrimination.

Because of the limitations of HMDA data, the Board has considered these data carefully in light of other information, including examination reports that provide an on-site evaluation of compliance by the subsidiary depository institutions of PNC Financial with fair lending laws. Examiners found no evidence of prohibited discrimination or other illegal credit practices at any of PNC Financial's subsidiary depository institutions. Examiners also identified no substantive violations of applicable fair lending laws and regulations at these institutions.

The record also indicates that PNC Financial has taken steps to ensure compliance with fair lending laws. PNC Financial's corporate fair lending statement of policy includes a commitment to conduct credit, marketing, and pricing activities for all borrowers while maintaining safe and sound credit standards. To implement this commitment, PNC Financial has devised a fair lending program that includes employee training and a review by senior management of credit decisions, pricing, marketing, and fair credit-related policies and procedures.

The Board has also considered the HMDA data in light of the performance of PNC Financial's subsidiary banks under the CRA and the programs described above. These established efforts demonstrate that the banks are active in helping to meet the credit needs of their entire communities.

D. Branch Closings

One commenter expressed concern about PNC Financial's stated intention of closing branches after the merger of PNC Bank/UnitedTrust Bank. PNC Bank has represented that any consolidations or branch closings would comply with PNC Bank's branch closing policy and all applicable rules and regulations, and that no branches in LMI census tracts would be affected. The policy includes a review of the performance of a branch proposed for relocation, closure, or consolidation; the potential adverse impact of that the closing on the branch's local community, with special emphasis on LMI communities; and the bank's ability to serve communities where a branch is relocated, closed, or consolidated through other PNC Bank branches and departments.

The Board also has considered that federal banking law provides a specific mechanism for addressing branch closings.[26] Federal law requires an insured depository institution to provide notice to the public and the appropriate federal supervisory agency before closing a branch. In addition, the Board notes that the OCC and FDIC, as the appropriate federal supervisors of PNC Financial's subsidiary banks, will continue to review the branch closing records of the banks in the course of conducting CRA performance examinations.

E. Conclusion on Convenience and Needs Considerations

In reviewing the effect of the proposal on the convenience and needs of the communities to be served, the Board has carefully considered the entire record, including comments received and responses to the comments, evaluations of the performance of the insured depository institution subsidiaries of PNC Financial and United National under the CRA, and confidential supervisory information. The Board also considered information submitted by PNC Financial concerning its subsidiary banks' performance under the CRA since their last CRA performance evaluations and the policies and procedures in place to ensure compliance with fair lending laws, HMDA, and other applicable laws.

Based on all the facts of record, and for reasons discussed above, the Board concludes that considerations relating to the convenience and needs factors, including the CRA performance records of the relevant depository institutions, are consistent with approval of the proposal.

24. For purposes of this HMDA analysis, minority census tract means a census tract with a minority population of 80 percent or more.

25. The data, for example, do not account for the possibility that an institution's outreach efforts may attract a larger proportion of marginally qualified applicants than other institutions attract and do not provide a basis for an independent assessment of whether an applicant who was denied credit was, in fact, creditworthy. Credit history problems and excessive debt levels relative to income (reasons most frequently cited for a credit denial) are not available from HMDA data.

26. Section 42 of the Federal Deposit Insurance Act (12 U.S.C. § 1831r-1), as implemented by the Joint Policy Statement Regarding Branch Closings (64 *Federal Register* 34,844 (1999)), requires that a bank provide the public with at least 30 days' notice and the appropriate federal supervisory agency with at least 90 days' notice before the date of the proposed branch closing. The bank also is required to provide reasons and other supporting data for the closure, consistent with the institution's written policy for branch closings.

Conclusion

Based on the foregoing and in light of all the facts of record, the Board has determined that the applications should be, and hereby are, approved.[27] In reaching this conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act and other applicable statutes. The Board's approval is specifically conditioned on compliance by PNC Financial with all the representations and commitments made in connection with the applications and the receipt of all other regulatory approvals. These representations, commitments, and conditions are deemed to be conditions imposed in writing by the Board in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

The transaction shall not be consummated before the fifteenth calendar day after the effective date of this order, and the proposal may not be consummated later than three months after the effective date of this order, unless such period is extended for good cause by the Board or by the Reserve Bank, acting pursuant to delegated authority.

By order of the Board of Governors, effective November 19, 2003.

Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Bies, Olson, and Bernanke. Absent and not voting: Governors Gramlich and Kohn.

ROBERT DEV. FRIERSON
Deputy Secretary of the Board

27. The commenter requested that the Board hold a public hearing on the proposal. Section 3 of the BHC Act does not require the Board to hold a public hearing on an application unless the appropriate supervisory authority for any of the banks to be acquired makes a timely written recommendation of denial of the application. The Board has not received such a recommendation from the appropriate supervisory authority. Under its rules, the Board also may, in its discretion, hold a public meeting or hearing on an application to acquire a bank if a meeting or hearing is necessary or appropriate to clarify factual issues related to the application and to provide an opportunity for testimony. 12 C.F.R. 225.16(e). The Board has considered carefully the commenter's request in light of all the facts of record. In the Board's view, the public has had ample opportunity to submit comments on the proposal, and in fact, the commenter has submitted written comments that the Board has considered carefully in acting on the proposal. The commenter's request fails to demonstrate why written comments do not present its views adequately or why a meeting or hearing otherwise would be necessary or appropriate. For these reasons, and based on all the facts of record, the Board has determined that a public hearing or meeting is not required or warranted in this case. Accordingly, the request for a public hearing on the proposal is denied.

In addition, the commenter has alleged that Federal Reserve System staff have not complied with the Board's *ex parte* communication policies in this case, including an allegation of inappropriate communications with PNC Financial before it filed these applications. PNC informed Reserve Bank staff of the United National proposal before submitting the applications. It is fully consistent with federal law and the Board's rules for companies considering acquisitions to provide advance notice of an acquisition proposal to the Federal Reserve System and to identify issues that might be raised by the proposal. The Board finds no basis for the commenter's claim that the applications were preapproved or that the staff engaged in any inappropriate communications.

S&T Bancorp, Inc.
Indiana, Pennsylvania

Order Approving Acquisition of Shares of a Bank Holding Company

S&T Bancorp, Inc. ("S&T"), a financial holding company within the meaning of the Bank Holding Company Act ("BHC Act"), has requested the Board's approval under section 3 of the BHC Act (12 U.S.C. § 1842) to acquire up to 9.9 percent of the voting shares of CBT Financial Corp. ("CBT"), and thereby indirectly acquire an interest in CBT's subsidiary bank, Clearfield Bank & Trust Company ("Clearfield Bank"), both in Clearfield, Pennsylvania.[1]

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (68 *Federal Register* 60,105 (2003)). The time for filing comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in section 3 of the BHC Act.

S&T, with consolidated assets of $2.8 billion, is the 18th largest banking organization in Pennsylvania, controlling total deposits of $1.9 billion, which represents 1.1 percent of total deposits in banking organizations in the state ("state deposits").[2] CBT, with consolidated assets of $254 million, is the 121st largest banking organization in Pennsylvania, controlling $187.1 million in deposits, which represents less than 1 percent of state deposits.[3] If S&T were deemed to control CBT on consummation of the proposal, S&T would remain the 18th largest banking organization in Pennsylvania, controlling approximately $2.1 billion in deposits, which would represent 1.2 percent of state deposits.

The Board received a comment from CBT objecting to the proposal on the grounds that the proposed investment could adversely affect the financial condition of both CBT and S&T. The Board has considered carefully CBT's comment in light of the factors that the Board must consider under section 3 of the BHC Act.

The Board previously has stated that the acquisition of less than a controlling interest in a bank or bank holding company is not a normal acquisition for a bank holding company.[4] However, the requirement in section 3(a)(3) of the BHC Act that the Board's approval be obtained before a bank holding company acquires more than 5 percent of the voting shares of a bank suggests that Congress contemplated the acquisition by bank holding companies of between 5 and 25 percent of the voting shares of banks.[5]

1. S&T owns 4.99 percent of CBT's voting shares. S&T proposes to acquire the additional shares of CBT through a cash purchase or series of purchases on the open market.

2. Asset data for S&T are as of September 30, 2003. Deposit and ranking data are as of June 30, 2002.

3. Asset data for CBT are as of June 30, 2003. Deposit and ranking data are as of June 30, 2002.

4. *See, e.g., Brookline Bancorp, MHC,* 86 *Federal Reserve Bulletin* 52 (2000) ("*Brookline*"); *North Fork Bancorporation, Inc.* 81 *Federal Reserve Bulletin* 734 (1995); *First Piedmont Corp.,* 59 *Federal Reserve Bulletin* 456, 457 (1973).

5. *See* 12 U.S.C. § 1842(a)(3).

On this basis, the Board previously has approved the acquisition by a bank holding company of less than a controlling interest in a bank or bank holding company.[6]

S&T has stated that the acquisition is intended as a passive investment and that it does not propose to control or exercise a controlling influence over CBT or Clearfield Bank. S&T has agreed to abide by certain commitments previously relied on by the Board in determining that an investing bank holding company would not be able to exercise a controlling influence over another bank holding company or bank for purposes of the BHC Act.[7] For example, S&T has committed not to exercise or attempt to exercise a controlling influence over the management or policies of CBT or any of its subsidiaries; not to seek or accept representation on the board of directors of CBT or any of its subsidiaries; and not to have any director, officer, employee, or agent interlocks with CBT or any of its subsidiaries. S&T also has committed not to attempt to influence the dividend policies, loan decisions, or operations of CBT or any of its subsidiaries. Moreover, the BHC Act prohibits S&T from acquiring additional shares of CBT or attempting to exercise a controlling influence over CBT without the Board's prior approval.

The Board has adequate supervisory authority to monitor compliance by S&T with the commitments, and the ability to take enforcement action against S&T if it violates any of the commitments.[8] The Board also has authority to initiate a control proceeding against S&T if facts presented later indicate that S&T or any of its subsidiaries or affiliates in fact controls CBT for purposes of the BHC Act.[9] Based on these considerations and all other facts of record, the Board has concluded that S&T would not acquire control of, or the ability to exercise a controlling influence over, CBT through the proposed acquisition of voting shares.

Competitive Considerations

In considering an application under section 3 of the BHC Act, the Board is required to evaluate a number of factors, including the competitive effects of the proposal. S&T and CBT compete directly in the Clearfield-Jefferson, Pennsylvania, banking market.[10] S&T is the largest depository institution[11] in the market, controlling $425.1 million in deposits, which represents 24.7 percent of the total deposits in depository institutions in the market ("market deposits").[12] CBT is the fourth largest depository institution in the market, controlling $154.8 million in deposits, which represents 9 percent of market deposits. If considered a combined organization on consummation of the proposal, S&T and CBT would be the largest depository institution in the Clearfield-Jefferson banking market, controlling $579.9 million in deposits, which would represent 33.7 percent of market deposits. The Herfindahl–Hirschman Index ("HHI") for the Clearfield–Jefferson banking market would increase 444 points to 2,119.[13]

The Board believes that the proposal would raise serious competitive concerns in the Clearfield-Jefferson banking market if S&T were to acquire control of CBT. Based on all the facts of record, including S&T's commitments discussed above, the Board has concluded that S&T would not acquire control of, or exercise a controlling influence over, CBT or its subsidiaries, including Clearfield Bank, as a result of the proposed acquisition. The Board's inquiry does not end, however, with its finding that S&T will not control CBT. The Board previously has noted that one company need not acquire control of another company to lessen competition between them substantially.[14] The Board has found that noncontrolling interests in directly competing depository institutions may raise serious questions under the BHC Act and has concluded that the specific facts of each case will determine whether the minority investment in a company would be anticompetitive.[15]

In this case, the Board has concluded, after careful analysis of the record, that no significant reduction in competition is likely to result from the proposed acquisition. The record shows that S&T intends the acquisition to

6. *See, e.g., Brookline* (acquisition of up to 9.9 percent of the voting shares of a bank holding company); *GB Bancorporation*, 83 *Federal Reserve Bulletin* 115 (1997) (acquisition of up to 24.9 percent of the voting shares of a bank); *Mansura Bancshares, Inc.*, 79 *Federal Reserve Bulletin* 37 (1993) ("*Mansura*") (acquisition of 9.7 percent of the voting shares of a bank holding company).

7. *See, e.g., Emigrant Bancorp, Inc.*, 82 *Federal Reserve Bulletin* 555 (1996); *First Community Bancshares, Inc.*, 77 *Federal Reserve Bulletin* 50 (1991). These commitments are set forth in the Appendix.

8. *See* 12 U.S.C. § 1818(b)(1).

9. *See* 12 U.S.C. § 1841(a)(2)(C).

10. The Clearfield-Jefferson market is defined as Clearfield and Jefferson Counties and North Mahoning, Canoe, and Banks Townships in Indiana County, all in Pennsylvania.

11. In this context, depository institutions include commercial banks, savings banks, and savings associations. Market share data are based on calculations that include the deposits of thrift institutions at 50 percent. The Board previously has indicated that thrift institutions have become, or have the potential to become, significant competitors of commercial banks. *See, e.g., Midwest Financial Group*, 75 *Federal Reserve Bulletin* 386, 387 (1989); *National City Corporation*, 70 *Federal Reserve Bulletin* 743, 744 (1984). Thus, the Board regularly has included thrift deposits in the calculation of market share on a 50 percent weighted basis. *See, e.g., First Hawaiian, Inc.*, 77 *Federal Reserve Bulletin* 52, 55 (1991).

12. Market deposit data are as of June 30, 2002, and reflect mergers and acquisitions through November 11, 2003..

13. Under the revised Department of Justice Merger Guidelines, 49 *Federal Register* 26,823 (June 29, 1984), a market in which the post-merger HHI is above 1800 is considered highly concentrated. The Department of Justice has informed the Board that a bank merger or acquisition generally will not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by more than 200 points. The Department of Justice has stated that the higher than normal thresholds for an increase in the HHI when screening bank mergers and acquisitions for anticompetitive effects implicitly recognize the competitive effects of limited-purpose and other nondepository financial entities.

14. *See, e.g., SunTrust Banks, Inc.*, 76 *Federal Reserve Bulletin* 542 (1990); *First State Corp.*, 76 *Federal Reserve Bulletin* 376, 379 (1990); *Sun Banks, Inc.*, 71 *Federal Reserve Bulletin* 243 (1985) ("*Sun Banks*").

15. *See, e.g., BOK Financial Corp.*, 81 *Federal Reserve Bulletin* 1052, 1053–54 (1995); *Mansura* at 38; *Sun Banks* at 244.

be a passive investment, and that there will be no officer or director interlocks between S&T and CBT and their respective subsidiaries, including Clearfield Bank. There is no evidence that S&T, by virtue of holding 9.9 percent of the voting shares of CBT, would have access to confidential information that would enable it to engage in anticompetitive behavior with respect to CBT or Clearfield Bank. Moreover, S&T has committed not to exercise a controlling influence over CBT and, therefore, may not direct CBT or Clearfield Bank to act in coordination with S&T in a manner that reduces competition.

The Board has also considered the market conditions in the Clearfield-Jefferson banking market. The Board notes that, in addition to S&T and CBT, eleven other bank and thrift competitors, including four competitors with market shares of at least 8 percent each, provide additional sources of banking services to the market. Moreover, Clearfield-Jefferson is a large rural market with total deposits of more than $1.7 billion, and its population per banking office and deposits per banking office exceed the averages for other counties in Pennsylvania, indicating that the market is attractive for new entry. In fact, a savings bank established a *de novo* branch in the market in 2002. The Department of Justice has also reviewed the proposal and has advised the Board that it does not believe that the proposed acquisition would likely have a significantly adverse effect on competition in any relevant banking market.

Based on these considerations and other facts of record, the Board has concluded that competitive considerations are consistent with approval.

Other Factors

The Board also is required under section 3 of the BHC Act to consider the financial and managerial resources and future prospects of the companies and banks concerned.[16] The Board notes that S&T is well managed and well capitalized and would remain so after the proposed acquisition. The Board has reviewed the financial and managerial resources of S&T and CBT and has concluded on the basis of all the facts of record that these resources, the future prospects of S&T, CBT, and their subsidiaries, and the other supervisory factors the Board must consider are consistent with approval of this application. In addition, considerations relating to the convenience and needs of the communities to be served, including the records of performance of the institutions involved under the Community Reinvestment Act, 12 U.S.C. §2901 *et seq.* ("CRA"), are consistent with approval of the application.[17]

Conclusion

Based on the foregoing and all other facts of record, the Board has determined that this application should be, and hereby is, approved. In reaching this conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act and other applicable statutes. The Board's approval is specifically conditioned on compliance by S&T with all representations and commitments made in connection with this application, including the commitments discussed in this order. These representations and commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

The acquisition of CBT's voting shares shall not be consummated before the fifteenth calendar day after the effective date of this order, or later than three months after the effective date of this order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of Cleveland, acting pursuant to delegated authority.

By order of the Board of Governors, effective November 25, 2003.

Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Gramlich, Olson, and Bernanke. Absent and not voting: Governors Bies and Kohn.

JENNIFER J. JOHNSON
Secretary of the Board

Appendix

As part of this proposal, S&T Bancorp, Inc. ("S&T"), Indiana, Pennsylvania, commits that S&T will not, without the prior approval of the Federal Reserve, directly or indirectly:

(1) Exercise or attempt to exercise a controlling influence over the management or policies of CBT Financial Corporation ("CBT") or any of its subsidiaries;
(2) Seek or accept representation on the board of directors of CBT or any of its subsidiaries;
(3) Have or seek to have any employee or representative serve as an officer, agent, or employee of CBT or any of its subsidiaries;

16. CBT asserts that S&T's ownership of a large percentage of CBT's shares could adversely affect the price of CBT's stock. CBT notes that its stock is thinly traded and contends that if S&T sold a large number of shares at once, the price could change precipitously. CBT further argues that this result could adversely affect S&T's financial resources by diminishing the value of S&T's investment in CBT. The Board is limited under the BHC Act to the consideration of factors specified in the Act. *See Western Bancshares, Inc. v. Board of Governors*, 480 F.2d 749 (10th Cir. 1973). The potential effect of future events on the price of a company's shares is not among the factors the Board is charged with considering under the BHC Act or other applicable statutes. Moreover, as noted, S&T is and would continue to be well capitalized after the proposed acquisition, and other considerations relating to the financial resources and future prospects of S&T and CBT are consistent with approval.

17. S&T's lead subsidiary bank, S&T Bank, also in Indiana, and Clearfield Bank each received "satisfactory" ratings at their most recent examinations for CRA performance by the Federal Deposit Insurance Corporation, as of January 1, 2003, and January 1, 1999, respectively.

(4) Take any action that would cause CBT or any of its subsidiaries to become a subsidiary of S&T, or any of S&T's subsidiaries;
(5) Acquire or retain shares that would cause the combined interests of S&T and any of S&T's subsidiaries and their officers, directors, and affiliates to equal or exceed 25 percent of the outstanding voting shares of CBT or any of its subsidiaries;
(6) Propose a director or slate of directors in opposition to a nominee or slate of nominees proposed by the management or board of directors of CBT or any of its subsidiaries;
(7) Solicit or participate in soliciting proxies with respect to any matter presented to the shareholders of CBT or any of its subsidiaries;
(8) Attempt to influence the dividend policies or practices; the investment, loan, or credit decisions or policies; the pricing of services; personnel decisions; operations activities (including the location of any offices or branches or their hours of operation, etc.); or any similar activities or decisions of CBT or any of its subsidiaries;
(9) Dispose or threaten to dispose of shares of CBT or any of its subsidiaries as a condition of specific action or nonaction by CBT or any of its subsidiaries; or
(10) Enter into any other banking or nonbanking transactions with CBT or any of its subsidiaries, except that S&T may establish and maintain deposit accounts with CBT's subsidiary depository institution, provided that the aggregate balance of all such deposit accounts does not exceed $500,000 and that the accounts are maintained on substantially the same terms as those prevailing for comparable accounts of persons unaffiliated with CBT or any of its subsidiaries.

S&T Bancorp, Inc.
Indiana, Pennsylvania

Order Approving Acquisition of Shares of a Bank Holding Company

S&T Bancorp, Inc. ("S&T"), a financial holding company within the meaning of the Bank Holding Company Act ("BHC Act"), has requested the Board's approval under section 3 of the BHC Act (12 U.S.C. § 1842) to acquire up to 9.9 percent of the voting shares of IBT Bancorp, Inc. ("IBT"), and thereby indirectly acquire an interest in IBT's subsidiary bank, Irwin Bank & Trust Company ("Irwin Bank"), both in Irwin, Pennsylvania.[1]

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (68 *Federal Register* 57,462 (2003)). The time for filing comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in section 3 of the BHC Act.

S&T, with consolidated assets of $2.8 billion, is the 18th largest banking organization in Pennsylvania, controlling deposits of $1.9 billion, which represents 1.1 percent of total deposits in banking organizations in the state ("state deposits").[2] IBT, with consolidated assets of $609 million, is the 52nd largest banking organization in Pennsylvania, controlling $450.4 million in deposits, which represents less than 1 percent of state deposits.[3] If S&T were deemed to control IBT after the proposed acquisition, S&T would become the 16th largest banking organization in Pennsylvania, controlling approximately $2.4 billion in deposits, which would represent 1.3 percent of state deposits.

The Board received a comment from IBT objecting to the proposal on the grounds that the proposed investment would adversely affect the financial and managerial resources of IBT and competition in the banking market where the subsidiary banks of S&T and IBT compete. The Board has considered carefully IBT's comment in light of the factors that the Board must consider under section 3 of the BHC Act.

The Board previously has stated that the acquisition of less than a controlling interest in a bank or bank holding company is not a normal acquisition for a bank holding company.[4] However, the requirement in section 3(a)(3) of the BHC Act that the Board's approval be obtained before a bank holding company acquires more than 5 percent of the voting shares of a bank suggests that Congress contemplated the acquisition by bank holding companies of between 5 and 25 percent of the voting shares of banks.[5] On this basis, the Board previously has approved the acquisition by a bank holding company of less than a controlling interest in a bank or bank holding company.[6]

IBT asserts that the proposal constitutes a controlling investment in IBT and would enable S&T to influence the affairs of Irwin Bank. Because S&T would not control 25 percent or more of the outstanding shares of any class of voting securities of IBT or Irwin Bank and would not be able to elect a majority of directors of IBT or Irwin Bank, S&T could only be deemed to control IBT or Irwin Bank for purposes of the BHC Act if the Board determines that S&T, by virtue of its proposed investment, would be able to exercise a controlling influence over the management or policies of IBT or Irwin Bank.

S&T has stated that the acquisition is intended as a passive investment and that it does not propose to control

1. S&T owns 4.1 percent of IBT's voting shares. S&T proposes to acquire the additional voting shares of IBT through a cash purchase or series of purchases on the open market.

2. Asset data for S&T are as of September 30, 2003. Deposit and ranking data are as of June 30, 2002.

3. Asset data for IBT are as of June 30, 2003. Deposit data and ranking data are as of June 30, 2002.

4. *See, e.g., Brookline Bancorp, MHC,* 86 *Federal Reserve Bulletin* 52 (2000) ("*Brookline*"); *North Fork Bancorporation, Inc.* 81 *Federal Reserve Bulletin* 734 (1995); *First Piedmont Corp.*, 59 *Federal Reserve Bulletin* 456, 457 (1973).

5. *See* 12 U.S.C. § 1842(a)(3).

6. *See, e.g., Brookline* (acquisition of up to 9.9 percent of the voting shares of a bank holding company); *GB Bancorporation,* 83 *Federal Reserve Bulletin* 115 (1997) (acquisition of up to 24.9 percent of the voting shares of a bank); *Mansura Bancshares, Inc.,* 79 *Federal Reserve Bulletin* 37 (1993) ("*Mansura*") (acquisition of 9.7 percent of the voting shares of a bank holding company).

IBT or Irwin Bank. S&T has agreed to abide by certain commitments previously relied on by the Board in determining that an investing bank holding company would not be able to exercise a controlling influence over another bank holding company or bank for purposes of the BHC Act.[7] For example, S&T has committed not to exercise or attempt to exercise a controlling influence over the management or policies of IBT or any of its subsidiaries; not to seek or accept representation on the board of directors of IBT or any of its subsidiaries; and not to have any director, officer, employee, or agent interlocks with IBT or any of its subsidiaries. S&T also has committed not to attempt to influence the dividend policies, loan decisions, or operations of IBT or any of its subsidiaries. Moreover, the BHC Act prohibits S&T from acquiring additional shares of IBT or attempting to exercise a controlling influence over IBT without the Board's prior approval.

IBT asserts that the commitments are insufficient to prevent S&T from exercising a controlling influence over IBT. IBT notes that, after completing the proposed acquisition of voting shares, S&T would be the largest shareholder of IBT, and that S&T's interest in IBT would exceed the combined interests of all the members of IBT's board of directors.

The Board, however, concludes, based on past experience, that the commitments made by S&T in connection with this application are sufficient to prevent S&T from exercising a controlling influence over IBT. The Board has adequate supervisory authority to monitor compliance by S&T with the commitments, and the ability to take enforcement action against S&T if it violates any of the commitments or exercises a controlling influence over IBT.[8] The Board also has authority to initiate a control proceeding against S&T if facts presented later indicate that S&T or any of its subsidiaries or affiliates in fact controls IBT for purposes of the BHC Act.[9] Based on these considerations and all other facts of record, the Board has concluded that S&T would not acquire control of, or the ability to exercise a controlling influence over, IBT through the proposed acquisition of voting shares.

Competitive Considerations

In considering an application under section 3 of the BHC Act, the Board is required to evaluate a number of factors, including the competitive effects of the proposal. The Board previously has noted that one company need not acquire control of another company to lessen competition between them substantially.[10] The Board has found that noncontrolling interests in directly competing depository institutions may raise serious questions under the BHC Act, and has concluded that the specific facts of each case will determine whether the minority investment in a company would be anticompetitive.[11]

S&T and IBT compete directly in the Pittsburgh, Pennsylvania, banking market.[12] S&T is the ninth largest depository institution[13] in the Pittsburgh banking market, controlling $649.6 million in deposits, which represents 1.6 percent of total deposits in depository institutions in the market ("market deposits").[14] IBT is the 14th largest depository institution in the Pittsburgh banking market, controlling $343.7 million in deposits, which represents less than 1 percent of market deposits. If considered a combined banking organization on consummation of the proposal, S&T and IBT would become the eighth largest depository institution in the Pittsburgh banking market, controlling approximately $993.4 million in deposits, which would represent 2.5 percent of market deposits. The Herfindahl–Hirschman Index ("HHI") for the Pittsburgh banking market would increase 3 points to 1,537, and numerous competitors would remain in the market.[15]

IBT asserts that S&T's ownership of 9.9 percent of IBT's voting shares would provide S&T with the ability to influence the affairs of Irwin Bank, with a resulting adverse effect on competition. The Board concludes that the commitments made by S&T to maintain its investment as a passive investment and not to exercise a controlling influ-

7. *See, e.g., Emigrant Bancorp, Inc.*, 82 *Federal Reserve Bulletin* 555 (1996); *First Community Bancshares, Inc.*, 77 *Federal Reserve Bulletin* 50 (1991). These commitments are set forth in the Appendix.

8. *See* 12 U.S.C. § 1818(b)(1).

9. *See* 12 U.S.C. § 1841(a)(2)(C).

10. *See, e.g., SunTrust Banks, Inc.*, 76 *Federal Reserve Bulletin* 542 (1990); *First State Corp.*, 76 *Federal Reserve Bulletin* 376, 379 (1990); *Sun Banks, Inc.*, 71 *Federal Reserve Bulletin* 243 (1985) ("*Sun Banks*").

11. *See, e.g., BOK Financial Corp.*, 81 *Federal Reserve Bulletin* 1052, 1053–54 (1995); *Mansura* at 38; *Sun Banks* at 244.

12. The Pittsburgh banking market is defined as all of Allegheny, Beaver, and Washington Counties; Westmoreland County except St. Clair Township; South Buffalo, Gilpin, Parks, and Kiskiminetas Townships in Armstrong County; Muddy Creek, Lancaster, Jackson, Forward, Penn, Jefferson, Winfield, Middlesex, Clinton, Cranberry, Adams, and Buffalo Townships in Butler County; Washington, Jefferson, Perry, Lower Tyrone, Upper Tyrone, Bullskin, and Salt Lick Townships in Fayette County; Conemaugh, Burrell, and West Wheatfield Townships in Indiana County; and Little Beaver, New Beaver, Wayne, and Perry Townships in Lawrence County, all in Pennsylvania.

13. In this context, depository institutions include commercial banks, savings banks, and savings associations. Market share data are based on calculations that include the deposits of thrift institutions at 50 percent. The Board previously has indicated that thrift institutions have become, or have the potential to become, significant competitors of commercial banks. *See, e.g., Midwest Financial Group*, 75 *Federal Reserve Bulletin* 386, 387 (1989); *National City Corporation*, 70 *Federal Reserve Bulletin* 743, 744 (1984). Thus, the Board regularly has included thrift deposits in the calculation of market share on a 50 percent weighted basis. *See, e.g., First Hawaiian, Inc.*, 77 *Federal Reserve Bulletin* 52, 55 (1991).

14. Market deposit data are as of June 30, 2002, and reflect mergers and acquisitions through September 2, 2003.

15. Under the revised Department of Justice Merger Guidelines, 49 *Federal Register* 26,823 (June 29, 1984), a market in which the post-merger HHI is between 1000 and 1800 is considered moderately concentrated. The Department of Justice has informed the Board that a bank merger or acquisition generally will not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by more than 200 points. The Department of Justice has stated that the higher than normal thresholds for an increase in the HHI when screening bank mergers and acquisitions for anticompetitive effects implicitly recognize the competitive effects of limited-purpose and other nondepository financial entities.

ence over IBT reduce the potential adverse effects of the proposal. Moreover, the Board notes that in light of the above analysis of the Pittsburgh banking market, if S&T and IBT were viewed as a combined organization on consummation of the proposal, the elimination of competition between the two entities would not appear to lessen substantially competition in any relevant banking market. The Department of Justice has also reviewed the proposal and has advised the Board that it does not believe that the acquisition would likely have a significantly adverse effect on competition in any relevant banking market.

Accordingly, in light of all the facts of record, the Board has concluded that competitive considerations are consistent with approval of the proposal.

Other Factors

The Board also is required under section 3(c) of the BHC Act to consider the financial and managerial resources and future prospects of the companies and banks concerned. IBT contends that S&T's investment would distract the attention of IBT's management from the operation of IBT and Irwin Bank, cause customer confusion about the continued independence of Irwin Bank, and adversely affect the price of IBT's shares.[16] The Board believes that the commitments made by S&T to maintain its investment as a passive investment and not to exercise a controlling influence over IBT reduce the potential adverse effects of the proposal. As noted above, S&T has committed that it will not attempt to influence the operations or activities, or the dividend, loan, or credit policies of IBT. No evidence has been presented to show that the purchase of shares of IBT on the open market by S&T would adversely affect the financial condition of IBT or S&T. The Board notes that S&T is well capitalized and would remain so on consummation of the proposal. Based on all the facts of record, the Board has concluded that the financial and managerial resources and the future prospects of S&T, IBT, and their subsidiaries are consistent with approval of this application, as are the other supervisory factors the Board must consider under section 3 of the BHC Act. In addition, considerations relating to the convenience and needs of the communities to be served, including the records of performance of the institutions involved under the Community Reinvestment Act, 12 U.S.C. §2901 *et seq.* ("CRA"), are consistent with approval of the application.[17]

16. IBT also contends that the proposal might create the perception that it is a candidate for acquisition. The Board is limited under the BHC Act to the consideration of factors specified in the Act. *See Western Bancshares, Inc. v. Board of Governors*, 480 F.2d 749 (10th Cir. 1973). The potential effect of a proposal on the behavior of others in the market is not among the factors the Board is charged with considering under the BHC Act or other applicable statutes. The Board also notes that IBT has stated publicly its intention to maintain the independence of Irwin Bank as a local community bank.

17. S&T's lead subsidiary bank, S&T Bank, also in Indiana, and Irwin Bank each received "satisfactory" ratings at their most recent examinations for CRA performance by the Federal Deposit Insurance Corporation, as of January 1, 2003, and August 1, 2001, respectively.

Conclusion

Based on the foregoing and all other facts of record, the Board has determined that this application should be, and hereby is, approved. In reaching this conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act and other applicable statutes. The Board's approval is specifically conditioned on compliance by S&T with all representations and commitments made in connection with this application, including the commitments discussed in this order. These representations and commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

The acquisition of IBT's voting shares shall not be consummated before the fifteenth calendar day after the effective date of this order, or later than three months after the effective date of this order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of Cleveland, acting pursuant to delegated authority.

By order of the Board of Governors, effective November 25, 2003.

Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Gramlich, Olson, and Bernanke. Absent and not voting: Governors Bies and Kohn.

JENNIFER J. JOHNSON
Secretary of the Board

Appendix

As part of this proposal, S&T Bancorp, Inc. ("S&T"), Indiana, Pennsylvania, commits that S&T will not, without the prior approval of the Federal Reserve, directly or indirectly:

(1) Exercise or attempt to exercise a controlling influence over the management or policies of IBT Bancorp, Inc. ("IBT") or any of its subsidiaries;
(2) Seek or accept representation on the board of directors of IBT or any of its subsidiaries;
(3) Have or seek to have any employee or representative serve as an officer, agent, or employee of IBT or any of its subsidiaries;
(4) Take any action that would cause IBT or any of its subsidiaries to become a subsidiary of S&T, or any of S&T's subsidiaries;
(5) Acquire or retain shares that would cause the combined interests of S&T and any of S&T's subsidiaries and their officers, directors, and affiliates to equal or exceed 25 percent of the outstanding voting shares of IBT or any of its subsidiaries;
(6) Propose a director or slate of directors in opposition to a nominee or slate of nominees proposed by the

management or board of directors of IBT or any of its subsidiaries;

(7) Solicit or participate in soliciting proxies with respect to any matter presented to the shareholders of IBT or any of its subsidiaries;

(8) Attempt to influence the dividend policies or practices; the investment, loan, or credit decisions or policies; the pricing of services; personnel decisions; operations activities (including the location of any offices or branches or their hours of operation, etc.); or any similar activities or decisions of IBT or any of its subsidiaries;

(9) Dispose or threaten to dispose of shares of IBT or any of its subsidiaries as a condition of specific action or nonaction by IBT or any of its subsidiaries; or

(10) Enter into any banking or nonbanking transactions with IBT or any of its subsidiaries, except for the following:

- S&T may establish and maintain deposit accounts with any depository institution subsidiaries of IBT, provided that the aggregate balance of all such accounts does not exceed $500,000 and that the accounts are maintained on substantially the same terms as those prevailing for comparable accounts of persons unaffiliated with IBT or any of its subsidiaries.
- Irwin Bank and Trust Company ("Irwin Bank"), Irwin, Pennsylvania, and S&T Bank, Indiana, Pennsylvania, may continue to sell loan participations to each other, provided that the aggregate balance of such loan participations purchased by Irwin Bank from S&T Bank does not exceed 5 percent of Irwin Bank's total loans outstanding, and provided further, that the aggregate of any such loan participations sold by Irwin Bank to S&T Bank does not exceed 5 percent of Irwin Bank's total loans outstanding.

Shinhan Financial Group Co., Ltd.
Seoul, Korea

Order Approving the Formation of a Bank Holding Company and Control of a Bank

Shinhan Financial Group Co., Ltd. ("SFG") has requested the Board's approval under section 3 of the Bank Holding Company Act ("BHC Act") (12 U.S.C. § 1842) to become a bank holding company and to control CHB America Bank, New York, New York ("CHB"). SFG's proposal is part of the privatization of Chohung Bank, Seoul, Korea, by the Korea Deposit Insurance Corporation ("KDIC").[1]

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (68 *Federal Register* 52,770 (2003)). The time for filing comments has expired, and the Board has considered the proposal in light of the factors set forth in section 3 of the BHC Act.

Before its acquisition of Chohung, SFG had total consolidated assets of $56 billion and was the sixth largest banking organization in Korea.[2] SFG's wholly owned subsidiary, Shinhan Bank, also in Seoul ("Shinhan"), operates a branch in New York City.

Before its acquisition by SFG, Chohung was the fifth largest banking organization in Korea and had total consolidated assets of $56 billion.[3] Chohung operates a branch in New York City. CHB has total consolidated assets of $293 million and controls deposits of $217 million, representing less than 1 percent of total deposits in insured depository institutions in the United States.[4] CHB operates branches in California and New York City.

Competitive and Convenience and Needs Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or be in furtherance of a monopoly. The BHC Act also prohibits the Board from approving a proposed bank acquisition that would substantially lessen competition in any relevant banking market unless the anticompetitive effects of the proposal in that banking market are clearly outweighed in the public interest by the probable effects of the proposal in meeting the convenience and needs of the community to be served.[5] This proposal represents SFG's initial entry into retail banking in the United States. Although Shinhan, Chohung, and CHB all operate branches in New York City, there are numerous competitors for banking services in the relevant banking markets. Based on all the facts of record, the Board has concluded that consummation of the proposal would not have a significantly adverse effect on competition or on the concentration of banking resources in any relevant banking market, and that competitive considerations are consistent with approval.

The Board also has considered the effect of the proposal on the convenience and needs of the communities to be served in light of all the facts of record, including the performance record of CHB under the Community Reinvestment Act.[6] In light of all the facts of record, the Board has concluded that considerations relating to the conve-

1. The KDIC acquired control of Chohung in 1999. In August 2003, SFG acquired approximately 80 percent of the voting shares of Chohung from the KDIC. The shares of CHB, Chohung's wholly owned subsidiary bank, were placed in a temporary trust ("CHB Trust") pending the submission of this application.

2. Foreign asset and ranking data are as of December 31, 2002, and use exchange rates then in effect.

3. SFG has indicated that Chohung will remain a separate legal entity for approximately three years after its acquisition by SFG.

4. Domestic asset and deposit data are as of March 31, 2003. Insured depository institutions include commercial banks, savings banks, and savings associations.

5. 12 U.S.C. § 1842(c)(1).

6. 12 U.S.C. § 2901 *et seq.* CHB was formed in March 2003 by the merger of California Chohung Bank with and into Chohung Bank of New York. Before this merger, each bank had received a "satisfactory" rating at the most recent CRA performance evaluation by its appropriate federal supervisor, the Federal Deposit Insurance Corporation: California Chohung Bank, as of April 2001; and Chohung Bank of New York, as of June 1998.

nience and needs of the communities to be served are also consistent with approval of this proposal.

Financial, Managerial, and Other Supervisory Factors

The BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and banks involved in an acquisition.[7] In assessing the financial and managerial strength of SFG, Chohung, and CHB, the Board has reviewed information provided by SFG, confidential supervisory and examination information, and publicly reported and other financial information. In addition, the Board has consulted with relevant supervisory authorities, including the Financial Supervisory Service ("FSS"),[8] which is responsible for the supervision and regulation of Korean financial institutions. The Board notes that the overall financial strength and future prospects of the combined organization will likely be enhanced by the privatization transaction. SFG's capital levels are considered equivalent to those that would be required of a U.S. banking organization under similar circumstances. Based on all the facts of record, the Board concludes that the financial and managerial resources and future prospects of SFG, Chohung, and CHB are consistent with approval.

Section 3 of the BHC Act also provides that the Board may not approve an application involving a foreign bank unless the bank is subject to comprehensive supervision or regulation on a consolidated basis by the appropriate authorities in the bank's home country.[9] As noted, the home country supervisor of SFG, Shinhan, and Chohung is the FSS. The Board has previously determined, in an application under the BHC Act involving Woori Bank, Seoul, that Woori Bank was subject to comprehensive consolidated supervision by the FSS.[10] In this case, the Board has determined that Chohung and Shinhan are supervised on substantially the same terms and conditions as Woori Bank. Based on all the facts of record, the Board has concluded that Chohung and Shinhan are subject to comprehensive supervision and regulation on a consolidated basis by their home country supervisor.[11]

In addition, section 3 of the BHC Act requires the Board to determine that an applicant has provided adequate assurances that it will make available to the Board such information on its operations and activities and those of its affiliates that the Board deems appropriate to determine and enforce compliance with the BHC Act.[12] The Board has reviewed the restrictions on disclosure in jurisdictions in which SFG, Shinhan, and Chohung have material operations and has communicated with relevant government authorities concerning access to information. SFG, Shinhan, and Chohung have committed that, to the extent not prohibited by applicable law, each will make available to the Board such information on the operations of its affiliates that the Board deems necessary to determine and enforce compliance with the BHC Act and other applicable federal law.

SFG, Shinhan, and Chohung also have committed to cooperate with the Board to obtain any waivers or exemptions that may be necessary to enable their affiliates to make any such information available to the Board. In light of these commitments, the Board has concluded that SFG, Shinhan, and Chohung have provided adequate assurances of access to any appropriate information the Board may request. For these reasons, and based on all the facts of record, the Board has concluded that the supervisory factors it is required to consider under section 3(c)(3) of the BHC Act are consistent with approval.

Conclusion

Based on the foregoing and in light of all the facts of record, the Board has determined that the application should be, and hereby is, approved. In reaching this conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act and other applicable statutes. The Board's approval is specifically conditioned on compliance by SFG and its affiliates with all the representations and commitments made in connection with the application, prior commitments made in connection with establishment of the CHB Trust, and the receipt of all other regulatory approvals. These representations, commitments, and conditions are deemed to be conditions imposed in writing by the Board in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

The transfer of the CHB voting shares from the CHB Trust to SFG shall not be consummated before the fifteenth calendar day after the effective date of this order, and the proposal may not be consummated later than three months after the effective date of this order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of New York, acting pursuant to delegated authority.

7. 12 U.S.C. § 1842(c)(2).

8. The FSS is the executive body of the Financial Supervisory Commission, which is responsible for promulgating supervisory regulations, making policy decisions about supervision, and imposing sanctions on financial institutions. *See Woori Finance Holdings Co., Ltd. and Woori Bank*, 89 *Federal Reserve Bulletin* 436 (2003) ("*Woori Order*").

9. 12 U.S.C. § 1842(c)(3)(B). As provided in Regulation Y, the Board determines whether a foreign bank is subject to consolidated home country supervision under the standards set forth in Regulation K. *See* 12 C.F.R. 225.13(a)(4). Regulation K provides that a foreign bank will be considered to be subject to comprehensive supervision or regulation on a consolidated basis if the Board determines that the bank is supervised or regulated in such a manner that its home country supervisor receives sufficient information on the worldwide operations of the bank, including its relationship to any affiliates, to assess the bank's overall financial condition and its compliance with laws and regulations. *See* 12 C.F.R. 211.24(c)(1).

10. *See Woori Order.*

11. The FSS also has supervisory authority with respect to SFG and its nonbanking subsidiaries. The FSS conducts inspections of SFG and its subsidiaries and requires SFG to submit reports about its operations on a consolidated basis. The FSS also may review transactions between SFG and its subsidiaries and has authority to require SFG to take measures necessary to ensure the safety and soundness of SFG's organization.

12. *See* 12 U.S.C. § 1842(c)(3)(A).

By order of the Board of Governors, effective November 20, 2003.

Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Gramlich, Bies, Olson, and Bernanke. Absent and not voting: Governor Kohn.

ROBERT DEV. FRIERSON
Deputy Secretary of the Board

Orders Issued Under Section 4 of the Bank Holding Company Act

The Royal Bank of Scotland Group plc
Edinburgh, Scotland

The Royal Bank of Scotland plc
Edinburgh, Scotland

RBSG International Holdings Ltd.
Edinburgh, Scotland

Citizens Financial Group, Inc.
Providence, Rhode Island

Order Approving the Acquisition of a Savings Association

The Royal Bank of Scotland Group plc ("RBS Group"), The Royal Bank of Scotland plc ("RBS"), RBSG International Holdings Ltd., and Citizens Financial Group, Inc. ("Citizens Financial") (collectively, "Notificants") have requested the Board's approval under sections 4(c)(8) and 4(j) of the BHC Act (12 U.S.C. § 1843(c)(8) and (j)) and section 225.24 of the Board's Regulation Y (12 C.F.R. 225.24) to acquire all the voting shares of Thistle Group Holdings, Co. ("Thistle") and thereby indirectly acquire all the voting shares of Thistle's wholly owned subsidiary savings association, Roxborough-Manayunk Bank, ("Roxborough"), both in Philadelphia, Pennsylvania.

The proposed transaction is primarily a merger of Roxborough into Citizens Financial's wholly owned subsidiary bank, Citizens Bank of Pennsylvania ("Citizens PA"), also in Philadelphia.[1] The merger transaction was approved by the Federal Deposit Insurance Corporation ("FDIC") under the Bank Merger Act (12 U.S.C. § 1828(c)) on December 15, 2003. The Board has consulted with the FDIC on its review of Citizens PA's proposal under the Bank Merger Act.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (68 *Federal Register* 62,080 (2003)), and the time for filing comments has expired. The Board has considered the notice and all comments received in light of the factors set forth in section 4 of the BHC Act.

RBS Group, with total consolidated assets equivalent to approximately $663 billion, is the fifth largest banking organization in the world.[2] Citizens Financial, with total consolidated assets of approximately $73 billion, is the nineteenth largest commercial banking organization in the United States.[3] Citizens Financial operates subsidiary depository institutions in Rhode Island, Massachusetts, Connecticut, New Hampshire, Delaware, and Pennsylvania that control approximately $53.6 billion in deposits, which represents approximately 1 percent of total deposits in insured depository institutions in the United States ("total U.S. insured deposits").[4]

Thistle has one subsidiary depository institution that operates in Pennsylvania and Delaware and controls $822 million in deposits, which represents less than 1 percent of total U.S. insured deposits. On consummation of this proposal, Citizens Financial, with total consolidated assets of $73 billion, would remain the nineteenth largest commercial banking organization in the United States, controlling deposits of $54.4 billion. Citizens Financial would remain the third largest banking organization in Pennsylvania and fifteenth largest in Delaware, controlling deposits of $18.6 billion and $854 million, respectively.

The Board previously has determined by regulation that the operation of a savings association by a bank holding company is closely related to banking for purposes of section 4(c)(8) of the BHC Act.[5] The Board requires that savings associations acquired by bank holding companies conform their direct and indirect activities to those permissible for bank holding companies under section 4 of the BHC Act and Regulation Y. Notificants have committed to conform all the activities of Thistle and Roxborough as required. Thistle also engages in printing and selling checks and related documents and in providing certain data processing services, which are activities that the Board has determined to be closely related to banking.[6]

In reviewing the proposal, the Board is required by section 4(j)(2)(A) of the BHC Act to determine that the acquisition of Thistle, Roxborough, and Thistle's other subsidiaries by Notificants "can reasonably be expected to produce benefits to the public . . . that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices."[7] As part of its evaluation of the proposal under these public interest factors, the Board reviews the financial and managerial resources of the companies involved, as well as the effect of the proposal on competition in the relevant markets.[8] In acting on notices to acquire a savings association, the Board also reviews the records of performance of the relevant insured depository

1. In addition, the Delaware branch of Roxborough would be sold to Citizens Bank, Wilmington, Delaware ("Citizens DE"), a subsidiary bank of Notificants.

2. Global asset and ranking data are as of December 31, 2002.
3. Asset and domestic ranking data are as of September 30, 2003.
4. Deposit data are as of June 30, 2003, unless otherwise noted.
5. 12 C.F.R. 225.28(b)(4)(ii).
6. 12 C.F.R. 225.28(b)(10)(ii) and (14).
7. 12 U.S.C. § 1843(j)(2)(A).
8. *See* 12 C.F.R. 225.26.

institutions under the Community Reinvestment Act ("CRA") (12 U.S.C. § 2901 *et seq.).*[9]

The Board has considered these factors in light of a record that includes information provided by Notificants, confidential supervisory and examination information, publicly reported financial and other information, and public comments submitted on the proposal. The Board also has consulted with, and considered information provided by, the primary home country supervisor of RBS Group and various federal and state supervisory agencies, including the FDIC, the Office of Thrift Supervision ("OTS"), the Massachusetts Division of Banks, and the Pennsylvania Department of Banking.

Competitive Considerations

As part of its consideration of the public interest factors under section 4 of the BHC Act, the Board has considered carefully the competitive effects of the proposal in light of all the facts of record.[10] Notificants and Thistle compete directly in the Philadelphia, Pennsylvania, and Wilmington, Delaware, banking markets.[11] The Board has reviewed carefully the competitive effects of the proposal in both banking markets in light of all the facts of record, including the number of competitors that would remain in the markets, the relative share of total deposits in depository institutions controlled by Notificants and Thistle in the markets ("market deposits"),[12] the concentration levels of market deposits and the increases in this level as measured by the Herfindahl–Hirschman Index ("HHI") under the Department of Justice Guidelines ("DOJ Guidelines"),[13] and other characteristics of the markets.

Consummation of the proposal would be consistent with Board precedent and the DOJ Guidelines in each relevant banking market. In addition, no agency has indicated that competitive issues are raised by the proposal. After consummation of the proposal, one banking market would remain unconcentrated and the other would remain moderately concentrated, as measured by the HHI.[14] Numerous competitors would remain in both banking markets. Based on these and all other facts of record, the Board concludes that consummation of the proposal is not likely to result in any significantly adverse effects on competition or on the concentration of banking resources in the two banking markets noted above or any other relevant banking market.

Financial and Managerial Factors

In reviewing the proposal under section 4 of the BHC Act, the Board has carefully considered the financial and managerial resources of Notificants and Thistle and their respective subsidiaries. The Board also has reviewed the effect the transaction would have on those resources in light of all the facts of record.[15]

The Board's review of these factors has considered, among other things, confidential reports of examination and other supervisory information received from the primary federal supervisors of the organizations involved, publicly reported and other financial information provided by Notificants and Thistle, and public comments.[16] In addition, the Board has consulted with the relevant supervisory agencies, including the FDIC, the OTS, and the relevant supervisory authorities in the United Kingdom.

In evaluating financial factors in expansion proposals by banking organizations, the Board consistently has considered capital adequacy to be especially important. The capital ratios of RBS would continue to exceed the minimum levels that would be required under the Basel Capital

9. *See, e.g., BancOne Corporation,* 83 *Federal Reserve Bulletin* 602 (1997).

10. *See First Hawaiian, Inc.,* 79 *Federal Reserve Bulletin* 966 (1993).

11. These markets are described in Appendix A.

12. Deposit and market share data are based on annual branch reports filed as of June 30, 2003, and on calculations in which the deposits of thrift institutions are included at 50 percent. The Board has previously indicated that thrift institutions have become, or have the potential to become, significant competitors of commercial banks. *See, e.g., Midwest Financial Group,* 75 *Federal Reserve Bulletin* 386 (1989); *National City Corporation,* 70 *Federal Reserve Bulletin* 743 (1984). Thus, the Board regularly has included thrift deposits in the calculation of market share on a 50 percent weighted basis. *See, e.g., First Hawaiian, Inc.,* 77 *Federal Reserve Bulletin* 52 (1991). Because the Board has analyzed the competitive factors in this case as if Notificants and Thistle were a combined entity, the deposits of Roxborough were included at 100 percent in the calculation of *pro forma* market share. *See Norwest Corporation,* 78 *Federal Reserve Bulletin* 452 (1992).

13. Under the DOJ Guidelines, 49 *Federal Register* 26,823 (1984), a market is considered unconcentrated if the post-merger HHI is under 1000 and moderately concentrated if the post-merger HHI is between 1000 and 1800. The DOJ has informed the Board that a bank merger or acquisition generally will not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by more than 200 points. The DOJ has stated that the higher than normal HHI thresholds for screening bank mergers for anticompetitive effects implicitly recognize the competitive effects of limited-purpose lenders and other nondepository financial institutions.

14. In the Philadelphia banking market, the HHI would increase 12 points to 947, and the HHI would remain unchanged at 1793 in the Wilmington banking market. The effects of the proposal on the concentration of banking resources in these markets are detailed in Appendix B.

15. *See* 12 C.F.R. 225.26.

16. One commenter opposing this proposal repeated allegations that the Board previously considered in its decisions to approve Notificants' applications to acquire Port Financial (the "Port Financial proposal") and Citizens PA and Citizens DE (the "Mellon proposal"), particularly that Notificants had inadequate records on human rights and the environment. The commenter's assertions were based on actions taken outside the United States; specifically, it was asserted that the activities of RBS Group and its affiliates in Indonesia ignored human rights concerns, damaged the environment, or caused other societal harm. The Board noted in its approvals of the Port Financial and Mellon proposals, and reaffirms in this case, that these contentions contained no allegations of illegality or of actions that would affect the safety and soundness of the institutions involved in the proposals, and that the allegations were outside the limited statutory factors that the Board is authorized to consider when reviewing an application under the BHC Act. *See The Royal Bank of Scotland Group plc,* 89 *Federal Reserve Bulletin* 386 (2003) ("RBS/Port Order"); *The Royal Bank of Scotland Group plc,* 88 *Federal Reserve Bulletin* 51 (2002) ("RBS/Mellon Order") (citing *Western Bancshares, Inc. v. Board of Governors,* 480 F.2d 749 (10th Cir. 1973).

Accord, and RBS Group's capital levels are considered equivalent to those that would be required of a U.S. banking organization. The Board notes that Citizens Financial, its subsidiary depository institutions, and Roxborough are well capitalized and would remain well capitalized on consummation of the proposal.

The Board also has considered the managerial resources of Notificants and Thistle, particularly the supervisory experience and assessments of management by the various bank supervisory agencies and the organizations' records of compliance with applicable banking laws. The Board also has carefully reviewed the examination records of Citizens Financial and its subsidiary depository institutions, including assessments of their risk management systems and other policies. In addition, the Board has considered Citizens Financial's plans to implement the proposed acquisition, including its available managerial resources, and Citizens Financial's record of successfully integrating recently acquired institutions into its existing operations. Based on these and all the facts of record, the Board concludes that the financial and managerial resources of the organizations involved in the proposal are consistent with approval under section 4 of the BHC Act.

Records of Performance Under the Community Reinvestment Act

As previously noted, the Board reviews the records of performance under the CRA of the relevant insured depository institutions when acting on a notice to acquire a savings association.[17] The CRA requires the Board to assess each insured depository institution's record of meeting the credit needs of its entire community, including low- and moderate-income ("LMI") neighborhoods, consistent with the institution's safe and sound operation, and to take this record into account in evaluating bank holding company notices.[18]

The Board has carefully considered the CRA performance records of each subsidiary insured depository institution of Citizens Financial and Thistle in light of all the facts of record, including comments received on the effect of the proposal on the communities to be served by the relevant insured depository institutions. The Board recently conducted a detailed review of the CRA performance records of the insured depository institutions controlled by Citizens Financial (the "Citizens Banks") and found those records to be consistent with approval of a bank expansion proposal.[19] The Board's analysis of the CRA performance records of the Citizens Banks, as detailed in the Citizens/Port Order, is incorporated herein by reference.

Two commenters opposed the current proposal. One commenter expressed concern that Citizens Financial's provision of loans and retail banking services in LMI areas in Philadelphia was not as extensive as the current array of products and services provided by Roxborough. The other commenter alleged, based on data submitted under the Home Mortgage Disclosure Act ("HMDA"),[20] that Citizens Financial and Roxborough engaged in disparate treatment of minority individuals in their assessment areas with respect to home mortgage lending.[21] This commenter also expressed concern about possible branch closings resulting from this proposal.[22]

A. CRA Performance Examinations

As provided in the CRA, the Board has evaluated the convenience and needs factor in light of examinations of the CRA performance records of the relevant insured depository institutions. An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed, on-site evaluation of the institution's overall record of performance under the CRA by its appropriate federal supervisor.[23]

Citizens MA and the other Citizens Financial subsidiary depository institutions that have been rated for CRA performance all received "outstanding" ratings at their most recent CRA performance examinations by the FDIC, as of December 2, 2002.[24] Roxborough received a "satisfactory" rating at its most recent CRA performance examination by the OTS, as of April 22, 2002.

Citizens PA and Citizens DE (together, the "Mid-Atlantic Banks") are newly chartered and have not received ratings for performance under the CRA. Notifi-

17. *See, e.g., Northfork Bancorporation, Inc.*, 86 *Federal Reserve Bulletin* 767 (2000).

18. 12 U.S.C. § 2903.

19. *See* RBS/Port Order at 387–89.

20. 12 U.S.C. § 2801 *et seq.*

21. The commenter also alleged that Citizens Financial engaged in discriminatory employment practices, citing a news report of a complaint filed with the Massachusetts Commission Against Discrimination ("MCAD") by a former employee. These allegations are outside the limited statutory factors that the Board is authorized to consider when reviewing a notice under the BHC Act. *See Western Bancshares*, 480 F.2d at 752. The Board also notes that the Equal Employment Opportunity Commission has jurisdiction to determine whether banking organizations like Citizens Financial are in compliance with federal equal employment opportunity statutes under the regulations of the Department of Labor. In addition, matters related to private employment are governed by state law and, in this case, are being reviewed by MCAD.

22. The commenter also expressed concern about the small business lending of Citizens Bank of Massachusetts, Boston, Massachusetts ("Citizens MA"), in one county in the Boston metropolitan area, alleging that Citizens MA made few small business loans in LMI census tracts. The commenter also raised this issue in the Port Financial proposal. The Board carefully considered this comment and Notificants' response in light of all the facts of record in approving the proposal. *See* RBS/Port Order at 389. The commenter has not provided any new information that would warrant a different conclusion in this proposal, and the Board reaffirms its findings in the RBS/Port Order.

23. *See Interagency Questions and Answers Regarding Community Reinvestment*, 66 *Federal Register* 36,620 and 36,639 (2001).

24. Citizens Bank of Rhode Island, Providence, Rhode Island ("Citizens RI"); Citizens Bank of Connecticut, New London, Connecticut; and Citizens Bank of New Hampshire, Manchester, New Hampshire (together with Citizens MA, the "New England Banks"), all received "outstanding" ratings at their most recent CRA performance examinations. United States Trust Company, Boston, Massachusetts, a subsidiary of Citizens, is a limited-purpose trust company and, therefore, is not subject to the CRA.

cants have represented that the Mid-Atlantic Banks are subject to the same CRA and fair lending policies as the New England Banks. Accordingly, the Board has particularly considered the 2002 performance evaluations of the New England Banks and the fair lending policies and procedures of Citizens Financial and the Citizens Banks. The Board notes that the CRA performance records of the New England Banks demonstrate the Notificants' ability and willingness to help meet effectively the credit needs of the communities served by their subsidiary depository institutions.

Because the Mid-Atlantic Banks are recently chartered and yet to be examined, the Board also has evaluated substantial information submitted by Citizens Financial concerning the CRA performance of the Citizens Banks, especially the Mid-Atlantic Banks. This information includes reviews of the Mid-Atlantic Banks' CRA-related activities; loan programs designed to address the needs of LMI borrowers and communities; community development lending and investments; retail banking products and services; data from Citizens Banks' affiliate, Citizens Mortgage Company ("CMC");[25] and confidential supervisory information from the FDIC.

Notificants state that the Mid-Atlantic Banks have endeavored to continue Notificants' success in meeting the credit needs of the communities they serve, including LMI areas. In general, the 2002 HMDA data indicate that the loans to LMI borrowers and to borrowers in LMI census tracts made by the Mid-Atlantic Banks and CMC, as a percentage of their total HMDA-reportable loans, exceeded or were comparable with that percentage for the aggregate of lenders.[26] For example, in 2002, Citizens PA originated approximately 14.3 percent of its HMDA-reportable loans in its Philadelphia assessment area to borrowers in LMI census tracts (the aggregate of lenders made approximately 11.6 percent) and 25.8 percent of such loans to LMI borrowers (the aggregate of lenders made 25.2 percent).

According to Notificants, the Mid-Atlantic Banks and CMC offer approximately 22 programs that feature home purchase, refinance, and home improvement loans specifically designed to address the needs of LMI borrowers and communities ("CRA-program loans").[27] These programs provide LMI borrowers with affordable home mortgage and home improvement loans using flexible underwriting guidelines. Notificants report that, in 2002, the Mid-Atlantic Banks and CMC originated more than 900 loans, totaling more than $81 million, under their CRA-program loans.

In addition, Notificants state that the Mid-Atlantic Banks made numerous community development loans to and investments in a diverse group of organizations and programs in Pennsylvania and Delaware. Notificants state that, since January 2002, Citizens PA and Citizens DE have provided more than $62 million and $11 million, respectively, in community development lending to support various organizations involved in affordable housing development, economic development, and job creation. During the same time period, Citizens PA made more than $5.5 million in investments, sponsorships, and grants, and Citizens DE funded $315,000 of its $3.5 million in community development investment commitments.

The Mid-Atlantic Banks generally provide the same services as the New England Banks, such as a full-service ATM network, 24-hour telephone banking, bank-by-mail, and internet banking services. In addition, all the Citizens Banks provide a number of community development services, such as financial education seminars.

B. HMDA Data and Fair Lending Record

The Board also has carefully considered the HMDA data reported by subsidiaries of Citizens Financial in light of the comments received on these data. Based on 2001 and 2002 HMDA data, a commenter alleged that the Citizens Banks disproportionately excluded African-American and Hispanic applicants for home mortgage loans in various Metropolitan Statistical Areas ("MSAs") in Connecticut, Delaware, Massachusetts, Pennsylvania, and Rhode Island. Substantially similar comments regarding Connecticut, Massachusetts, and Rhode Island were considered by the Board in the Port Financial proposal, and the Board's analysis of the Citizens Banks' HMDA data in the RBS/Port Order is incorporated herein by reference.

As noted in the RBS/Port Order, the Citizens Banks' denial disparity ratios reported for African-American and Hispanic applicants in 2002 were generally lower than or comparable with those ratios reported by the aggregate of lenders in each of the markets reviewed.[28] In their Pennsylvania and Delaware assessment areas, the Mid-Atlantic Banks' denial disparity ratios reported for African-American and Hispanic applicants in 2002 were lower than those ratios reported by the aggregate of lenders in these assessment areas.

Importantly, the HMDA data do not indicate that the Citizens Banks have excluded any segment of the population or geographic areas on a prohibited basis. The Board, nevertheless, is concerned when the record of an institution indicates disparities in lending and believes that all banks are obligated to ensure that their lending practices are based on criteria that ensure not only safe and sound lending, but also equal access to credit by creditworthy

25. CMC is a subsidiary of Citizens RI. CMC's HMDA data were considered in the 2002 evaluation of the lending records of the Citizens Banks by the FDIC.

26. In this context, "HMDA-reportable loans" refers to loans that are required to be reported under HMDA: home purchase, home improvement, and multifamily mortgage loans and refinancings of those types of loans. Loans made by the aggregate of lenders refers to all HMDA-reportable loans made in the assessment area by all lenders required to report under HMDA.

27. These programs include the EZ Home Improvement Loan, the ACORN Housing Partnership Loan, and the Philadelphia Home Improvement Loan Program, which is offered in partnership with the Philadelphia Redevelopment Authority and the Greater Philadelphia Urban Affairs Coalition.

28. The denial disparity ratio is the denial rate of a particular racial category (e.g., African Americans) divided by the denial rate for whites.

applicants regardless of their race or income level. The Board recognizes, however, that HMDA data alone provide an incomplete measure of an institution's lending in its community because these data cover only a few categories of housing-related lending. HMDA data, moreover, provide only limited information about covered loans.[29] Therefore, HMDA data have limitations that make them an inadequate basis, absent other information, for concluding that an institution has not assisted adequately in meeting its community's credit needs or has engaged in illegal lending discrimination.

Because of the limitations of HMDA data, the Board has considered these data carefully in light of other information, including examination reports that provide an on-site evaluation of compliance by the Citizens Banks with fair lending laws. Examiners found no evidence of prohibited discrimination or other illegal credit practices at any of Citizens Financial's subsidiary depository institutions. The record also indicates that Citizens Financial has taken a number of affirmative steps to ensure compliance with fair lending laws. The Citizens Banks have a "second-look" policy with two procedures for reviewing credit decisions for compliance with their fair lending policy. Under this policy, a committee conducts a weekly review of marginal approvals and denials for consistency in the application of investor underwriting guidelines, and the quality control department conducts a quarterly statistically based regression analysis of all applications to identify possible instances or indications of disparate treatment. In addition, Citizens Financial has established a fair lending committee and a mandatory, ongoing employee training program on compliance with fair lending and other consumer protection laws.

The Board also has considered the HMDA data in light of the Citizens Banks' overall performance under the CRA, which demonstrates that these institutions are actively helping to meet the credit needs of their entire communities.[30] The Board believes that, when viewed in light of the entire record, the HMDA data and other CRA-related information indicate that the Citizens Banks' records of performance in helping to serve the credit needs of their communities are consistent with approval of the proposal.

C. Branch Closings

A commenter expressed concern about the possible effect of branch closings that might result from this proposal, and the Board has considered these comments in light of all the facts of record. Citizens Financial has represented that it will apply its current branch closing policy to any potential closing or consolidation of a branch acquired under this proposal. Accordingly, the Board has carefully reviewed Citizens Financial's branch closing policy. The policy provides that Citizens Financial will review a number of factors before closing or consolidating a branch, including the impact on the community, the business viability of the branch, and the impact on access to credit, as well as ensuring that the branch closing has no discriminatory effect. The most recent CRA examinations of the Citizens Banks indicated that they had satisfactory records of opening and closing branches. The Board expects that Citizens Financial would continue to apply a branch closing policy to any branch closed in connection with the proposed transaction that is satisfactory to examiners.

The Board also has considered that federal banking law provides a specific mechanism for addressing branch closings.[31] Federal law requires an insured depository institution to provide notice to the public and to the appropriate federal supervisory agency before closing a branch. In addition, the Board notes that the FDIC, as the appropriate federal supervisor of the Citizens Banks, will review the branch closing records of the banks in the course of conducting CRA performance examinations.

D. Conclusion on Convenience and Needs Considerations

In reviewing the proposal's effect on the convenience and needs of the communities to be served by the combined organization, the Board has carefully considered the entire record, including the public comments received, reports of examinations of the CRA performance of the institutions involved, and confidential supervisory information from the FDIC. The record and examinations show that Citizens Financial's subsidiary banks have a variety of programs in place that are designed to meet the credit and banking needs of their communities, including LMI borrowers and areas. Based on all the facts of record, and for the reasons discussed above, the Board concludes that considerations relating to the convenience and needs of the communities to be served, including the CRA performance records of

29. The data, for example, do not account for the possibility that an institution's outreach efforts may attract a larger proportion of marginally qualified applicants than other institutions attract and do not provide a basis for an independent assessment of whether an applicant who was denied credit was, in fact, creditworthy. Credit history problems and excessive debt levels relative to income (reasons most frequently cited for a credit denial) are not available from HMDA data.

30. A commenter reiterated an allegation, considered previously by the Board in both the Mellon and Port Financial proposals, that Notificants indirectly supported predatory lending activities that were conducted by a number of unaffiliated consumer lenders through the securitization activities and warehouse-lending services of Notificants' subsidiary, Greenwich Capital Markets, Greenwich, Connecticut ("GCM"). Notificants have stated that GCM conducts periodic due diligence reviews in connection with its securitization activities. The Board carefully considered this comment and Notificants' response in light of all the facts of record in approving the Mellon and Port Financial proposals. *See* RBS/Mellon Order and RBS/Port Order. Commenter has not provided any new information that would warrant a different conclusion in this proposal.

31. Section 42 of the Federal Deposit Insurance Act (12 U.S.C. § 1831r-1), as implemented by the Joint Policy Statement Regarding Branch Closings (64 *Federal Register* 34,844 (1999)), requires that a bank provide the public with at least 30 days' notice and the appropriate federal supervisory agency with at least 90 days' notice before the date of the proposed branch closing. The bank also is required to provide reasons and other supporting data for the closure, consistent with the institution's written policy for branch closings.

the relevant depository institutions, are consistent with approval of the proposal.

Public Benefits and Other Considerations

As part of its evaluation of the public interest factors, the Board also has reviewed carefully the other public benefits and possible adverse effects of the proposal. The record indicates that consummation of the proposal would result in benefits to consumers and businesses. The proposal would enable Notificants to provide Thistle's customers with access to a broader array of products and services, including commercial and investment banking products, in an expanded service area. Among the Citizens Financial products that would become available to customers of Roxborough are products specifically designed for small- and medium-size businesses and trust and asset management services. Customers of Roxborough would have access to an expanded branch and ATM network and internet banking services. Based on the foregoing and all the facts of record, the Board has determined that consummation of the proposal can reasonably be expected to produce public benefits that would outweigh any likely adverse effects under the standard of section 4(j)(2) of the BHC Act.

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the notice should be, and hereby is, approved.[32] In reaching its conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act and other applicable statutes. The Board's approval is specifically conditioned on compliance by Notificants with all the representations and commitments made in connection with the notice and all the conditions in this order.

The Board's determination also is subject to all the conditions set forth in Regulation Y, including those in sections 225.7 and 225.25(c) (12 C.F.R. 225.7 and 225.25(c)), and to the Board's authority to require such modification or termination of the activities of a bank holding company or any of its subsidiaries as the Board finds necessary to ensure compliance with, and to prevent evasion of, the provisions of the BHC Act and the Board's regulations and orders thereunder. For purposes of this action, the representations, commitments, and conditions relied on by the Board in reaching its decision are deemed to be conditions imposed in writing by the Board in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

The transaction shall not be consummated later than three months after the effective date of this order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of Boston, acting pursuant to delegated authority.

By order of the Board of Governors, effective December 19, 2003.

Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Gramlich, Bies, Olson, Bernanke, and Kohn.

ROBERT DEV. FRIERSON
Deputy Secretary of the Board

Appendix A

Banking Markets in which Citizens Financial Competes Directly with Thistle

A. Philadelphia Banking Market

Bucks, Chester, Delaware, Montgomery, and Philadelphia Counties in Pennsylvania; and Burlington, Camden, Gloucester, and Salem Counties and a portion of Mercer County in New Jersey.

B. Wilmington Banking Market

New Castle County in Delaware; and Cecil County in Maryland.

Appendix B

Market Data

Philadelphia Banking Market

Notificants operate the third largest depository institution in the market, controlling deposits of approximately \$9.5 billion, which represents approximately 10.6 percent of market deposits. Thistle operates the twenty-eighth largest depository institution in the market, controlling deposits of approximately \$503 million, which represents less than 1 percent of market deposits. On consummation of the proposal, Citizens would operate the second largest depository institution in the market, controlling deposits of approximately \$10 billion, which represents approximately

32. One commenter requested that the Board hold a public meeting on the proposal. Section 4 of the BHC Act and the Board's rules thereunder provide for a hearing on a notice to acquire nonbanking companies if there are disputed issues of material fact that cannot be resolved in some other manner. 12 C.F.R. 225.25(a)(2). Under its rules, the Board also may, in its discretion, hold a public meeting if appropriate to allow interested persons an opportunity to provide relevant testimony when written comments would not adequately present their views. The Board has considered carefully the commenter's request in light of all the facts of record. In the Board's view, the public has had ample opportunity to submit comments on the proposal and, in fact, the commenter has submitted extensive written comments that the Board has considered carefully in acting on the proposal. The commenter failed to identify disputed issues of fact that are material to the Board's decision that would be clarified by a public meeting. In addition, the commenter failed to demonstrate why its written comments did not adequately present its views, evidence, and allegations. For these reasons and based on all the facts of record, the Board has determined that a public meeting is not required or warranted in this case. Accordingly, the request for a public meeting on the proposal is denied.

11.2 percent of market deposits. One hundred twenty-four depository institutions would remain in the market, and the HHI would increase 12 points to 947.

Wilmington Banking Market

Notificants operate the twelfth largest depository institution in the market, controlling deposits of approximately $568 million, which represents approximately 1.5 percent of market deposits. Thistle operates the twenty-sixth largest depository institution in the market, controlling deposits of approximately $48 million, which represents less than 1 percent of market deposits. On consummation of the proposal, Citizens would remain the twelfth largest depository institution in the market, controlling deposits of approximately $616 million, which represents less than 1 percent of market deposits. Thirty-two depository institutions would remain in the market, and the HHI would remain unchanged at 1793.

Orders Issued Under Sections 3 and 4 of the Bank Holding Company Act

Central Pacific Financial Corp.
Honolulu, Hawaii

Order Approving the Acquisition of a Bank Holding Company

Central Pacific Financial Corp. ("Central Pacific"), a bank holding company within the meaning of the Bank Holding Company Act ("BHC Act"), has requested the Board's approval under section 3 of the BHC Act (12 U.S.C. §1842) to acquire CB Bancshares, Inc. ("CBBI"), and CBBI's subsidiary bank, City Bank ("City Bank"), both in Honolulu, Hawaii. Central Pacific also has requested the Board's approval under sections 4(c)(8) and 4(j) of the BHC Act (12 U.S.C. §1843(c)(8) and 1843(j)) to acquire Datatronix Financial Services, Inc., also in Honolulu ("Datatronix"), a nonbanking subsidiary of CBBI that engages in data processing and data transmission activities.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (68 *Federal Register* 24,478 (2003)). The time for filing comments has expired, and the Board has considered the proposal and all comments received during the comment period in light of the factors set forth in sections 3 and 4 of the BHC Act.

Central Pacific is the third largest commercial banking organization in Hawaii and controls Central Pacific Bank in Honolulu ("CP Bank"), with total deposits of approximately $1.7 billion, which represent approximately 8.3 percent of total deposits in depository institutions in the state ("state deposits").[1] CBBI is the fourth largest commercial banking organization in Hawaii and controls City Bank, with total deposits of approximately $1.2 billion, which represent approximately 5.7 percent of state deposits. On consummation of the proposal, Central Pacific would remain the third largest commercial banking organization in Hawaii, controlling deposits of approximately $2.9 billion, which represent 14 percent of state deposits.

The proposal by Central Pacific to acquire CBBI and City Bank is opposed by management of CBBI, and CBBI has submitted comments to the Board urging denial on several grounds. The Board previously has stated that, in evaluating acquisition proposals, it must apply the criteria in the BHC Act in the same manner to all proposals, whether they are supported or opposed by the management of the institutions to be acquired.[2] Section 3(c) of the BHC Act requires the Board to review each application in light of certain factors specified in the Act. These factors require consideration of the effects of the proposal on competition, the financial and managerial resources and future prospects of the companies and depository institutions concerned, and the convenience and needs of the communities to be served.[3] Section 4(j) of the BHC Act requires the Board to consider whether the nonbanking aspects of the transaction can reasonably be expected to produce benefits to the public, such as greater convenience, increased competition, or gains in efficiency, that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices.

In considering these factors, the Board is mindful of the potential adverse effects that contested acquisitions might have on the financial and managerial resources of the company to be acquired and the acquiring organization. In addition, the Board takes into account the potential for adverse effects that a prolonged contest may have on the safe and sound operation of the institutions involved. The Board has long held that, if the statutory criteria are met, withholding approval based on other factors, such as whether the proposal is acceptable to the management of the organization to be acquired, would be outside the limits of the Board's discretion under the BHC Act.[4]

As explained below, the Board has carefully considered the statutory criteria in light of all of the comments and information provided by CBBI and the responses submitted by Central Pacific.[5] The Board also has carefully con-

1. In this context, depository institutions include commercial banks, savings banks, and savings associations. Deposit data are as of June 30, 2003.

2. *See North Fork Bancorporation, Inc.*, 86 *Federal Reserve Bulletin* 767, 768 (2000) ("*North Fork*"); *The Bank of New York Company, Inc.*, 74 *Federal Reserve Bulletin* 257, 259 (1988) ("*BONY*").

3. In addition, the Board is required by section 3(c) of the BHC Act to disapprove a proposal if the Board does not have adequate assurances that it can obtain information on the activities or operations of the company and its affiliates, or in the case of a foreign bank, if such bank is not subject to comprehensive supervision on a consolidated basis. *See* 12 U.S.C. § 1842(c).

4. *See FleetBoston Financial Corporation*, 86 *Federal Reserve Bulletin* 751, 752 (2000); *North Fork*; *BONY*.

5. CBBI has provided comments and information on a number of issues, including the competitive impact of the proposal; potential branch closures; the accuracy and sufficiency of Central Pacific's financial projections and resources; the managerial resources of Central Pacific; the ability of Central Pacific to consummate the proposed acquisition in light of CBBI's corporate defenses and opposition, ongoing litigation, and provisions of Hawaiian corporate law; the

sidered all other information available, including information accumulated in the application process, supervisory information of the Board and other agencies, relevant examination reports, and information provided by the Hawaii Division of Financial Institutions ("DFI") and the Federal Deposit Insurance Corporation ("FDIC"). In considering the statutory factors, particularly the effect of the proposal on the financial and managerial resources of Central Pacific, the Board has received detailed financial information, including the terms and cost of the proposal and the resources that Central Pacific proposes to devote to the transaction.

After reviewing the proposal in light of the requirements of the BHC Act, and for the reasons explained below, the Board has determined to approve the application and notice subject to Central Pacific's commitments and the conditions established herein by the Board. The Board's decision is conditioned on the requirement that Central Pacific's offer not differ in any material aspect from the terms that it has provided to the Board. Accordingly, if Central Pacific amends or alters the terms of the offer as described by Central Pacific to the Board or is unable to complete all aspects of its proposal, it must consult with the Board to determine whether the difference is material to the Board's analysis and conclusions regarding the statutory factors and, therefore, would require a modification to this order, a new application, or further proceedings before the Board.

In reviewing this proposal, the Board has taken into account the potential for adverse effects on the financial and managerial resources of the companies involved if there is prolonged opposition to the proposal. As discussed below, the Board has followed its standard practice of requiring that consummation of the proposal, including the acquisition of at least a majority of the shares of CBBI, be completed within three months from the date of this order. If the transaction is not concluded within this period, the Board will review carefully any requests by Central Pacific to extend the consummation period and would expect to grant an extension of the period only if the Board is satisfied that the statutory factors continue to be met.

The Board's decision and conclusions on this proposal are limited to the application of the statutory factors set out in the BHC Act to the proposal. The Board expresses no view or recommendation on whether this transaction is in the best interests of the shareholders or whether it should be accepted by the management or shareholders of CBBI.

Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or would be in furtherance of any attempt to monopolize the business of banking in any relevant banking market. The BHC Act also prohibits the Board from approving a proposed bank acquisition that would substantially lessen competition in any relevant banking market, unless the Board finds that the anticompetitive effects of the proposal clearly are outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served.[6]

The proposed merger of Central Pacific and CBBI would combine the third and fourth largest commercial banking organizations in Hawaii. The Board has reviewed carefully the competitive effects of the proposal in each relevant banking market in light of all the facts of record, including information collected by the Federal Reserve System, information provided by Central Pacific and CBBI, information provided by the Department of Justice and other relevant agencies, and public information. The Board also has carefully considered comments submitted by CBBI on the competitive effects of the proposal. CBBI contends that the merger would reduce competition for several reasons, including alleging that the transaction will result in a reduction in banking services, higher fees, the elimination of certain banking products, and reduced customer convenience.

To determine the effect of a particular transaction on competition, it is necessary to designate the area of effective competition between the parties, which the courts have held is decided by reference to the relevant "line of commerce," or product market, and the geographic market. CBBI contends that the competitive analysis should focus on the impact of the merger on the provision of banking services to small- and medium-size businesses and consumers. On this basis, CBBI contends that the proposed merger would have anticompetitive effects in certain Hawaiian banking markets as well as the entire state.

The Board and the courts consistently have recognized that the appropriate product market for analyzing the competitive effects of bank mergers and acquisitions is the cluster of products (various kinds of credit) and services (such as checking accounts and trust administration) offered by banking institutions.[7] According to the Supreme Court, the clustering of banking products and services facilitates convenient access to these products and services, and vests the cluster with economic significance beyond the individual products and services that constitute the cluster.[8] Several studies support the conclusion that both businesses and households continue to seek this cluster of services.[9] Consistent with these precedents and studies,

potential loss of CBBI's status as a minority-owned depository institution; and the effect of the proposed acquisition on the convenience and needs of the communities served by CBBI and Central Pacific.

6. 12 U.S.C. § 1842(c)(1).

7. *See Chemical Banking Corporation*, 82 *Federal Reserve Bulletin* 239 (1996) ("*Chemical*"), and the cases and studies cited therein. The Supreme Court has emphasized that it is the cluster of products and services that, as a matter of trade reality, makes banking a distinct line of commerce. *See United States v. Philadelphia National Bank*, 374 U.S. 321, 357 (1963) ("*Philadelphia National*"); *accord United States v. Connecticut National Bank*, 418 U.S. 656 (1974); *United States v. Phillipsburg National Bank*, 399 U.S. 350 (1969) ("*Phillipsburg National*").

8. *See Phillipsburg National*, 399 U.S. at 361.

9. Cole and Wolken, *Financial Services Used by Small Businesses: Evidence from the 1993 National Survey of Small Business Finance*, 81 *Federal Reserve Bulletin* 629 (1995); Elliehausen and Wolken, *Banking Markets and the Use of Financial Services by Households*, 78 *Federal Reserve Bulletin* 169 (1992); Elliehausen and Wolken,

and on the basis of the facts of record in this case, the Board concludes that the cluster of banking products and services represents the appropriate product market for analyzing the competitive effects of this proposal.

In defining the relevant geographic market, the Board consistently has sought to identify the area in which the cluster of banking products and services is provided by competing institutions and in which purchasers of the products and services seek to obtain these products and services.[10] In applying these standards to bank acquisition proposals, the Board and the courts repeatedly have held that the geographic market for the cluster of banking products and services is local in nature.[11] In delineating the relevant geographic market in which to assess the competitive effects of a bank merger or acquisition, the Board reviews population density; worker commuting patterns; the usage and availability of banking products; advertising patterns of financial institutions; the presence of shopping, employment, and other necessities; and other indicia of economic integration and transmission of competitive forces among banks.[12] In Hawaii, the Board has paid particular attention to an analysis of relevant commuting data, the state's mountainous island geography, the economic integration of the local areas, and evidence of where customers conduct their banking business.[13]

In applying these principles in Hawaii, the Board previously has identified five local geographic markets in which effects of bank expansion proposals on competition must be analyzed.[14] Based on these and all other facts of record in this case, the Board continues to believe that Hawaii is comprised of five local banking markets and that the record in this case supports a competitive analysis based on these five local markets.

Central Pacific and CBBI compete directly in four of these local banking markets: East Hawaii Island (Hilo), Honolulu, Kauai and West Maui.[15] The Board has reviewed carefully the competitive effects of the proposal in each of these banking markets in light of all the facts of record, including the number of competitors that would remain in the market, the relative share of total deposits in depository institutions controlled by Central Pacific and CBBI in the markets ("market deposits"),[16] the concentration level of market deposits and the increase in this level as measured by the Herfindahl–Hirschman Index ("HHI") under the Department of Justice Guidelines ("DOJ Guidelines"),[17] and other characteristics of the markets.[18] Consummation of the proposal would be consistent with Board precedent and the DOJ Guidelines in each of the four banking markets.[19]

The Department of Justice also has conducted a detailed review of the expected competitive effects of the proposal. The Department of Justice has advised the Board that consummation of the proposal would not be likely to have a significantly adverse effect on competition in any relevant banking market. The FDIC and the DFI have been afforded an opportunity to comment and have not objected to consummation of the proposal.

After carefully reviewing all the facts of record, including public comments on the competitive effects of the proposal, and for the reasons discussed in the order and appendices, the Board concludes that consummation of the proposal would not be likely to result in a significantly

Banking Markets and the Use of Financial Services by Small- and Medium-Sized Businesses, 76 *Federal Reserve Bulletin* 726 (1990).

10. *See, e.g., Sunwest Financial Services, Inc.*, 73 *Federal Reserve Bulletin* 463 (1987); *Pikeville National Corporation*, 71 *Federal Reserve Bulletin* 240 (1985); *Wyoming Bancorporation*, 68 *Federal Reserve Bulletin* 313 (1982), aff'd 729 F.2d 687 (10th Cir. 1984).

11. *See Philadelphia National*, 374 U.S. at 357; *Phillipsburg National*; *First Union Corporation*, 84 *Federal Reserve Bulletin* 489 (1998); *Chemical; St. Joseph Valley Bank*, 68 *Federal Reserve Bulletin* 673 (1982) ("*St. Joseph*").

12. *See Crestar Bank*, 81 *Federal Reserve Bulletin* 200, 201, n. 5 (1995); *Pennbancorp*, 69 *Federal Reserve Bulletin* 548 (1983); *St. Joseph*.

13. *See First Hawaiian, Inc.*, 77 *Federal Reserve Bulletin* 52, n. 13 (1991) ("*First Hawaiian*"). In reaching this conclusion, the Board relied in part on evidence derived from a survey conducted by the Federal Reserve Bank of San Francisco. All the consumers surveyed reported that they maintained their primary transaction accounts in local markets. All the businesses surveyed maintained their primary transaction accounts with the local offices of depository institution, and all the businesses that borrowed from depository institutions obtained their loans from local offices. *See id.*

14. *See Bancorp Hawaii, Inc.*, 76 *Federal Reserve Bulletin* 759 (1990), which identified the following Hawaiian banking markets: East Hawaii Island (Hilo), Honolulu, Kauai, West Hawaii Island (Kailua-Kona), and West Maui.

15. These markets are described in Appendix A.

16. Deposits and market share data are as of June 30, 2003, and are based on calculations in which the deposits of thrift institutions are included at 50 percent. The Board has previously indicated that thrift institutions have become, or have the potential to become, significant competitors of commercial banks. *See, e.g., Midwest Financial Group*, 75 *Federal Reserve Bulletin* 386 (1989); *National City Corporation*, 70 *Federal Reserve Bulletin* 743 (1984). Thus, the Board regularly has included thrift deposits in the calculation of market share on a 50 percent weighted basis. *See, e.g., First Hawaiian.*

17. Under the DOJ Guidelines, 49 *Federal Register* 26,823 (1984), a market is considered highly concentrated if the post-merger HHI is more than 1800. The Department of Justice has informed the Board that a bank merger or acquisition generally will not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by more than 200 points. The Department of Justice has stated that the higher than normal HHI thresholds for screening bank mergers for anticompetitive effects implicitly recognize the competitive effects of limited-purpose lenders and other nondepository financial institutions.

18. The effects of the proposal on the concentration of banking resources in these markets are described in Appendix B.

19. As previously noted, CBBI contends that the competitive analysis should focus on the impact of the merger on providing banking services to small- and medium-sized businesses and consumers. CBBI provides no information that supports finding lending to small or mid-size businesses as a separate product market. Even if the competitive analysis defined the relevant product market more narrowly to comprise only lending to small or mid-size businesses, the Board does not believe that consummation of the proposal would have a significantly adverse effect on competition in those products in any relevant banking market. In each case there are numerous competitors, the changes in market share resulting from this transaction are not significantly adverse, and the barriers to entry by depository institutions and others are relatively low. CBBI argues that branch closures and the elimination of services will hurt consumers. As discussed below, Central Pacific has stated that it will open a new branch for every branch closed. CBBI currently provides a wide array of services to its customers and expects to integrate CBBI's products and services into its operations as appropriate.

adverse effect on competition or on the concentration of banking resources in any of the markets in which Central Pacific and CBBI directly compete or in any other relevant banking market. Accordingly, based on all the facts of record, the Board has determined that competitive factors are consistent with approval of the proposal.

Convenience and Needs Considerations

In acting on a proposal under section 3 of the BHC Act, the Board is required to consider the effects of the proposal on the convenience and needs of the communities to be served and to take into account the records of the relevant insured depository institutions under the Community Reinvestment Act ("CRA").[20] The CRA requires the federal financial supervisory agencies to encourage financial institutions to help meet the credit needs of local communities in which they operate, consistent with their safe and sound operation, and requires the appropriate federal financial supervisory agency to take into account an institution's record of meeting the credit needs of its entire community, including low- and moderate-income ("LMI") neighborhoods, in evaluating bank expansionary proposals.

The Board has considered carefully the convenience and needs factor and the CRA performance records of the subsidiary depository institutions of Central Pacific and CBBI in light of all the facts of record. As part of its review, the Board carefully considered comments submitted by CBBI expressing concerns about the record of Central Pacific in meeting the convenience and needs of the communities it serves and Central Pacific's responses to those concerns.[21] In particular, CBBI criticized Central Pacific's record of small business and home mortgage lending to LMI borrowers and its record of lending in LMI communities in Hawaii. In addition, CBBI expressed concern about potential branch closings.[22]

A. CRA Performance Evaluations

As provided in the CRA, the Board has evaluated the convenience and needs factor in light of evaluations by the appropriate federal supervisors of the CRA performance records of the relevant insured depository institutions. An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed, on-site evaluation of the institution's overall record of performance under the CRA by its appropriate federal supervisor.[23]

The subsidiary banks of Central Pacific and CBBI each received "satisfactory" ratings at their most recent CRA performance evaluations. Central Pacific's subsidiary bank, CP Bank, received a "satisfactory"" rating by the FDIC, as of August 23, 2002 (the "2002 Evaluation"), and CBBI's subsidiary bank, City Bank, received a "satisfactory" rating by the FDIC, as of September 11, 2001 (the "2001 Evaluation"). Examiners found no evidence of prohibited discrimination or other illegal credit practices at either of the insured depository institutions involved in this proposal and found no violations of the substantive provisions of fair lending laws.

B. CRA Performance of Central Pacific

1. Lending Test

CP Bank received a rating of "low satisfactory" under the lending test in the 2002 Evaluation, in which examiners concluded that CP Bank's lending record reflected adequate responsiveness to community credit needs and adequate penetration throughout its assessment area.[24] They also commented that CP Bank had adopted a business strategy that focused on commercial and industrial and nonfarm, nonresidential loans, with residential lending correspondingly de-emphasized. As previously noted by the Board, the CRA does not require financial institutions to provide any particular type of products or services to its customers.

The 2002 Evaluation reported that CP Bank's lending record demonstrated good penetration among business customers of different sizes, including loans to small businesses and small loans to businesses.[25] During the review period, CP Bank originated approximately $149.2 million in small loans to businesses in its assessment areas, of which approximately 18.6 percent by number were made to businesses in LMI areas. Examiners also noted that approximately 65 percent of CP Bank's small loans to businesses were made to small businesses, which significantly exceeded the record of lenders in the aggregate ("aggregate lenders"), and concluded that CP Bank was clearly addressing the credit needs of small businesses.

20. 12 U.S.C. §2901 *et seq.*

21. In connection with this application, Central Pacific has also publicly announced its willingness to commit an additional $1 million in qualified investments and charitable donations to support local community needs.

22. CBBI has expressed concern that the proposal might result in the loss of jobs. Central Pacific has announced publicly its intention to retain almost all the employees of City Bank after consummation of this proposal. Moreover, the factors that the Board can consider when reviewing an application are limited by applicable law. The effect of a proposed transaction on employment in a community is not among the factors included in the acts administered by the Board. The convenience and needs factor has been consistently interpreted by the federal financial supervisory agencies, the courts, and Congress to relate to the effects of a proposal on the availability and quality of banking services in the community. *See Wells Fargo & Company*, 82 *Federal Reserve Bulletin* 455, 457 (1996).

23. *See Interagency Questions and Answers Regarding Community Reinvestment*, 66 *Federal Register* 36,620 and 36,639 (2001).

24. The review period was January 1, 2000, through June 30, 2002. CP Bank's assessment areas for the 2002 Evaluation included the Honolulu Metropolitan Statistical Area ("MSA") and the non-MSA portions of Hawaii ("Hawaii non-MSA"), which together comprised the entire state. CP Bank's deposits and lending activities were more heavily concentrated in its Honolulu MSA assessment area. Accordingly, examiners gave substantially more weight to CP Bank's activities in the Honolulu MSA assessment area when determining the bank's overall CRA rating.

25. In this context, "loans to small businesses" includes loans to businesses with gross annual revenues of $1 million or less, and "small loans to businesses" includes loans of $1 million or less to businesses.

Examiners also concluded that CP Bank's lending to small businesses in the Honolulu MSA was excellent relative to aggregate lenders. In this assessment area, CP Bank originated 73.3 percent and 55.8 percent of its business loans to small businesses in 2000 and 2001, respectively. In 2000 and 2001, CP Bank originated 83.6 percent and 63.6 percent, respectively, of its loans to small businesses in amounts of $100,000 or less. In CP Bank's Hawaii non-MSA assessment area, examiners found that 19 percent of the loans CP Bank made to small businesses were made to businesses in moderate-income tracts in 2000 (the only year for which aggregate lending data were available), which compared favorably with aggregate lenders. Moreover, the majority of CP Bank's small loans to small businesses in its Hawaii non-MSA assessment area were extended to small businesses.

The 2002 Evaluation noted CP Bank's participation in flexible lending programs tailored to the needs of small businesses and LMI individuals who might not qualify for more traditional loan products. CP Bank, as a Small Business Administration ("SBA") Preferred Lender, originated approximately $9.7 million in SBA loan products during the review period. Examiners reported that CP Bank assisted new or very small businesses in qualifying for credit by offering term business loans with minimum loan amounts of $10,000 and business lines of credit with no minimum loan amount.

During the review period, CP Bank originated approximately $149.4 million in loans reportable under the Home Mortgage Disclosure Act (12 U.S.C. §2801 *et seq.*) ("HMDA") in its assessment areas, of which approximately 15.1 percent by number were in LMI geographies.[26] In its Honolulu MSA assessment area, CP Bank extended 15.4 percent and 18.8 percent of its HMDA loans to borrowers in moderate-income census tracts in 2000 and 2001, respectively, which examiners described as very good relative to aggregate lenders. Examiners found that CP Bank's distribution of HMDA loans to moderate-income borrowers in the Hawaii non-MSA portions of its assessment areas was comparable with the percentage of moderate-income households in the area. Although CP Bank did not originate a significant number of loans in low-income areas in its assessment areas, examiners concluded that there were limited opportunities to make such loans. Examiners noted that in the Honolulu MSA, owner-occupied housing represented less than 1 percent of housing units in low-income areas. In the Hawaii non-MSA assessment areas, examiners noted that there were only two low-income census tracts, that both were very isolated, and that one had been partially evacuated.

The 2002 Evaluation also noted CP Bank's participation in mortgage loan programs sponsored at the federal, state, and local level, including programs of the Federal National Mortgage Association, the County of Kauai Home Buyer Gap Mortgage program, and the Hula Mae program that were designed to increase home ownership among LMI individuals. Through these flexible lending programs and CP Bank's Affordable Program/First Time Homebuyer Program, CP Bank originated more than $600,000 in mortgage loans during the reporting period.

Central Pacific represented that since the 2002 Evaluation, it has undertaken certain initiatives to further enhance its lending performance, including hiring additional mortgage lending personnel and instituting a monetary incentive program for CRA-related mortgage loans. In addition, CP Bank has instituted a new training program for branch managers and loan officers with respect to flexible mortgage lending programs.

Examiners characterized CP Bank as a leader in making community development loans and noted that the majority of these loans addressed the need for financing for affordable rental housing. Examiners reported that CP Bank's emphasis on affordable housing and its investment in a community loan fund that served LMI individuals and provided loans to small business entrepreneurs demonstrated good responsiveness to the credit needs of its community. During the review period, CP Bank extended $14.2 million in community development loans and a $9 million standby letter of credit in its assessment area, including $2.7 million in loans in its Hawaii non-MSA assessment area. CP Bank's community development loans benefited affordable housing projects and community organizations, which included a 91-unit apartment complex that provides affordable housing to low-income, disabled persons; a hospital in a LMI community; and a microenterprise development program.

2. Investment Test

CP Bank received an "outstanding" rating for investment activities in the 2002 Evaluation. During the review period, CP Bank's qualified investments in its assessment areas totaled approximately $20.5 million. Examiners noted that CP Bank's investment, grant, and donation activities were very responsive to the credit and economic needs of its assessment areas. The 2002 Evaluation also reported that CP Bank's grants and donations benefited community organizations that provided affordable housing projects for LMI individuals, financing and other services for small businesses, and community development services tailored to LMI individuals.

3. Service Test

CP Bank received an "outstanding" rating for its retail banking services in the 2002 Evaluation. Examiners reported that CP Bank's retail banking delivery services were readily accessible to all portions of its assessment areas. In addition, the 2002 Evaluation found that CP Bank's 14 full-service branches offered a full array of bank products and services, and that all branches maintained hours that did not inconvenience any portion of the bank's assessment areas or any group of individuals. Examiners

26. Although CP Bank increased both the number of and dollar volume of its mortgage loans, the bank's market share remained almost unchanged, in part because of the increased number of lenders in the market.

noted that CP Bank maintained alternative delivery systems, including automated teller machines ("ATMs"), 24-hour telephone banking, and internet banking. The 2002 Evaluation also noted that since its previous CRA evaluation, CP Bank had initiated new banking products to help meet certain retail banking needs of LMI individuals and small businesses, including a low-cost checking account with no minimum balance and unlimited check-writing privileges.

C. CRA Performance of CBBI

1. Lending Test

City Bank received a "high satisfactory" rating for lending activities at the 2001 Evaluation.[27] Examiners reported that City Bank's overall lending performance in its assessment areas reflected a responsiveness to community credit needs.[28] The 2001 Evaluation stated that City Bank's lending record demonstrated good penetration among home mortgage borrowers of different income levels. During the review period, City Bank funded residential mortgage loans totaling more than $347 million in its combined assessment areas. Examiners found that the percentages of City Bank's total HMDA-reportable loans in LMI census tracts and to LMI borrowers in its assessment areas during the review period was comparable with those percentages for aggregate lenders.

Examiners indicated that City Bank's small business lending in its combined assessment areas also reflected a responsiveness to area credit needs. City Bank made small loans to businesses totaling approximately $11.1 million during the review period, including approximately $5.1 million in loans to small businesses. In the 2001 Evaluation, examiners reported that approximately 31 percent of City Bank's small loans to businesses, by number and dollar volume, were extended to businesses in LMI census tracts.

The 2001 Evaluation also found that City Bank had made a relatively high level of community development loans during the review period. Examiners noted that many of City Bank's community development loans had financed affordable housing programs and were made in conjunction with nonprofit community development organizations and developers. During the review period, City Bank originated approximately $27 million in community development loans, including $8.9 million in multifamily affordable housing loans and $14.2 million in loans that promoted economic development.

2. Investment Test

City Bank received a "low satisfactory" rating for investment activities in the 2001 Evaluation. The 2001 Evaluation reported that City Bank maintained an adequate level of community development investments. Examiners noted that City Bank made qualified investments totaling approximately $3.3 million, including approximately $1 million in qualified investments in low-income, community financial organizations and $1.2 million in securities backed by mortgage loans to LMI borrowers.

3. Service Test

City Bank received a "high satisfactory" rating for retail banking services in the 2001 Evaluation. Examiners reported that the bank's banking services were accessible to essentially all portions of its assessment areas, and noted that it offered alternative delivery systems, including ATMs, 24-hour telephone banking, and internet banking. During the review period, City Bank offered a low-cost checking account for LMI customers.

D. Branch Closings

The Board has considered the public comments about potential branch closings in light of all the facts of record. Central Pacific has provided the Board with its branch closing policy and states that it has not made final decisions about branches that may be closed after consummation of the proposal. Moreover, Central Pacific has represented that it will open a new branch for every branch of CP Bank or City Bank that is closed as a result of this merger. The Board has considered carefully CP Bank's branch closing policy and its record of opening and closing branches. The branch closing policy provides that if CP Bank considers closing a branch in a low-income or predominantly minority area, bank management must meet with community representatives to discuss measures that might keep the branch open. Examiners reviewed its branch closing policy as part of the 2002 Evaluation and found it to be in compliance with federal law. The Board expects that Central Pacific would continue to follow a branch closing policy satisfactory to examiners for any branch closed in connection with the proposed transaction.

The Board also has considered that federal banking law provides a specific mechanism for addressing branch closings.[29] Federal law requires an insured depository institution to provide notice to the public and to the appropriate federal supervisor before closing a branch. In addition, the Board notes that the FDIC, as the appropriate federal supervisor of CP Bank, will continue to review its branch closing record in the course of conducting CRA performance evaluations.

---

27. The review period was January 1, 1999, through June 30, 2001.

28. City Bank's assessment areas for the 2001 Evaluation included the Honolulu MSA, Hawaii County, and Maui County, except for the islands of Lanai and Molokai.

29. Section 42 of the Federal Deposit Insurance Act (12 U.S.C. § 1831r-1), as implemented by the Joint Policy Statement Regarding Branch Closings (64 *Federal Register* 34,844 (1999)), requires that a bank provide the public with at least 30 days' notice and the appropriate federal supervisory agency and customers of the branch with at least 90 days' notice before the date of the proposed branch closing. The bank also is required to provide reasons and other supporting data for the closure, consistent with the institution's written policy for branch closings.

E. Minority Depository Institution

CBBI also has expressed concern that the proposed transaction and merger of City Bank and CP Bank might result in the termination of City Bank's status as a minority depository institution under Section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act ("FIRREA").[30]

The Board is mindful of the beneficial role played by minority depository institutions in promoting access to banking services for all communities. However, neither section 308 of FIRREA nor the guidance issued under that section by the relevant agencies prohibits bank holding companies from acquiring minority depository institutions, and the current proposal does not involve the types of competing bids contemplated by section 308. In addition, the Board notes that the FDIC would be required to review the merger of CP Bank and City Bank before such a merger could proceed. Central Pacific has stated that, after consummation of the proposal, the resulting organization will continue to have substantial minority ownership and management participation. The Board expects Central Pacific and CP Bank to continue to conduct their businesses in a manner that promotes equal access to banking services for all segments of their communities, including minority individuals.

F. Conclusion on Convenience and Needs Factor

The Board has carefully considered all the facts of record, including reports of examination of CRA record of the institutions involved, information provided by Central Pacific, all comments received and responses to the comments, and confidential supervisory information.[31] Based on a review of the entire record, and for the reasons discussed above, the Board concludes that considerations relating to the convenience and needs factor, including the CRA performance records of the relevant depository institutions, are consistent with approval.

Financial and Managerial Factors

Section 3 of the BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and banks involved in the proposal and certain other supervisory factors. The Board has carefully considered these factors in light of all the facts of record, including public comments, reports of examination, and other confidential supervisory information assessing the financial and managerial resources of the organizations. The Board has also considered information provided by other banking agencies, including the FDIC and the DFI. In addition, the Board has considered publicly available financial and other information on the organizations and their subsidiaries, and all the information submitted on the financial and managerial aspects of the proposal by Central Pacific and CBBI. CBBI, in particular, has expressed concerns about the integration of the organizations' operations, Central Pacific's estimates of the cost savings that might result from the proposed merger, and Central Pacific's managerial depth and experience.[32]

In evaluating financial factors in expansion proposals by banking organizations, the Board consistently has considered capital adequacy to be especially important.[33] The Board expects banking organizations contemplating expansion to maintain strong capital levels substantially in excess of the minimum levels specified in the Board's Capital Adequacy Guidelines. Strong capital is particularly important in proposals that involve higher transaction costs or risks, such as proposals that are contested.

Central Pacific, CP Bank, CBBI, and City Bank are currently well capitalized. Central Pacific has described in detail the terms and costs of its proposed offer to acquire CBBI. Central Pacific proposes to acquire the shares of CBBI with a combination of cash and shares of Central Pacific's common stock. Funds to acquire the common stock of CBBI will come from Central Pacific's available cash on hand, dividends from CP Bank, funds that Central Pacific has recently raised through the issuance of trust preferred securities, and funds that Central Pacific anticipates raising in further issuances of trust preferred or other securities.[34] On consummation of the proposal, Central

30. Section 308 of FIRREA requires the Secretary of the Treasury to consult with the Office of Thrift Supervision and the FDIC to devise methods to achieve certain goals for minority depository institutions, including preserving the number of such institutions and favoring bids by minority depository institutions to acquire another minority depository institution over bids by other acquirers. *See* Pub. L. No. 101-73, 103 Stat. 354 (1989) (*see* 12 U.S.C.A. § 1463 note). *See also* FDIC Policy Statement Regarding Minority Depository Institutions, 67 *Federal Register* 18,618 (2002).

31. CBBI also expressed concern that the merger would result in a diminution in products available to customers. Central Pacific indicates that it expects to integrate CBBI's products and services into its offices as appropriate, thereby providing customers with access to a broader array of services. In analyzing the potential effects of this proposal on the availability of banking products, the Board has placed significant weight on Central Pacific's actual record of performance in meeting the convenience and needs of the communities it serves. The Board expects Central Pacific to continue to meet the convenience and needs of its communities, including LMI areas, by offering products and services that help meet the banking needs of it customers, including LMI individuals and small businesses, after the acquisition of CBBI.

32. CBBI alleges that integrating the organizations would be especially difficult for Central Pacific in light of the contested nature of the transaction and the potential that officers and managers of CBBI might leave the combined organization. CBBI also argues that Central Pacific has not adequately accounted for the possible financial effects if CBBI shareholders assert dissenter's rights. In addition, CBBI argues that information provided by Central Pacific to the Board and to the public is insufficient to permit an analysis of the financial and managerial aspects of the proposal, including the likely cost savings from the proposal. After receiving Central Pacific's initial application and notice, the Board requested additional information on all aspects of the proposal, including plans for integration and revised financial projections and cost estimates, and has received substantial confidential and nonconfidential information that has been included in the record.

33. *See, e.g., First Union Corporation*, 87 *Federal Reserve Bulletin* 683, 688 (2001); *Chemical*.

34. CBBI has expressed concerns about Central Pacific's reliance on trust preferred securities in light of recent opinions by the Financial

Pacific, CP Bank, CBBI, and City Bank would have a cushion above the minimum levels necessary to meet the regulatory definition of well capitalized. In addition, Central Pacific has committed to the Board that Central Pacific and CP Bank will remain well capitalized.

In addition to carefully reviewing the capital structure of the resulting institution, the Board has considered the impact of this transaction on the other financial resources of Central Pacific. Central Pacific's earnings historically have exceeded those of institutions in its peer group. The Board also has reviewed the financial resources of the combined organization, taking into account Central Pacific's projected costs as well as projections regarding potential customer attrition and cost savings.[35] These projections indicate that Central Pacific should be able to remain well capitalized on consummation of this proposal and to continue to meet its cash obligations.[36]

The Board also has considered the managerial resources of the entities involved and of the proposed combined organization. CBBI alleges that the management of Central Pacific is inexperienced in transactions involving bank acquisitions and lacks the managerial skill to consummate the transaction. CBBI also alleges that managing the combined entity would put severe strain on the management of Central Pacific because the transaction would almost double the size of Central Pacific.

The Board has carefully reviewed all available information on the management of Central Pacific, including confidential reports of examination, information submitted by Central Pacific and CBBI, and publicly available information. In particular, the Board has reviewed the information submitted by Central Pacific, including confidential information, about its plans for integrating and managing the combined organization. Several factors reduce concern with respect to the managerial resources of the combined entity. Central Pacific, CBBI, and their subsidiary depository institutions currently are satisfactorily managed, with appropriate risk management processes in place. Both institutions operate in the same markets and engage in similar types of activities. In addition, Central Pacific has represented that both institutions use much of the same information technology for their banking operations. As mentioned above, Central Pacific and City Bank are well capitalized, and both institutions have records of positive earnings. Central Pacific's plan for integrating CBBI and its subsidiaries into Central Pacific appears adequate.[37] Based on these and all the facts of record, the Board concludes that the financial and managerial resources and future prospects of the organizations involved in the proposal are consistent with approval, as are the other supervisory considerations that the Board must consider under section 3 of the BHC Act.

Provisions of Hawaiian Law and CBBI's Shareholders' Rights Plan

CBBI is a Hawaiian corporation and Hawaiian law contains various provisions governing proposals to acquire Hawaiian corporations that are unsolicited by the management.[38] In addition, CBBI's bylaws provide certain rights to shareholders that are intended to protect against bidders that are not approved by CBBI's management

---

Accounting Standards Board ("FASB") regarding the status of trust preferred securities. *See* Consolidation of Variable Interest Entities, *FASB Interpretation*, No. 46 (2003); Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity, *Statement of Financial Accounting Standards*, No. 150 (May 2003). Earlier this year, the Board issued supervisory guidance directing bank holding companies to continue to include certain trust preferred securities as tier 1 capital for regulatory capital purposes pending further review of this matter by the Board. *See* Federal Reserve Board Supervisory Letter, SR 03-13 (July 2, 2003). The Board is in the process of considering the regulatory capital implications of the FASB opinions and will provide further guidance as appropriate on the treatment of trust preferred securities as capital. The Board has also considered information provided by Central Pacific on its alternatives to using trust preferred securities to meet its capital requirement.

35. Under Hawaiian law, dissenting shareholders in a merger between corporations may request to receive cash consideration instead of shares of the resulting company. CBBI has argued that there would be adverse financial consequences to Central Pacific if 25 percent of CBBI's shareholders dissent from the merger and elect to receive a cash payment for their CBBI shares in an amount equal to the value of Central Pacific's tender offer or greater. In evaluating the potential effects of this proposal on the financial resources of Central Pacific, the Board has considered the effects of the assertion of dissenter's rights consistent with CBBI's assumptions in light of Central Pacific's ability to raise additional funds to consummate this transaction, its commitment to remain well capitalized, and the terms and conditions of its proposal as outlined in the application process.

36. CBBI has expressed concern that Central Pacific's projected cost savings are unrealistic in light of Central Pacific's representations that it would retain almost all City Bank employees and would open a new branch for every branch it closes in connection with the proposal. The Board has evaluated the financial effects of this proposal under the assumption that Central Pacific will not realize any cost savings and that customer attrition will be greater than anticipated by Central Pacific.

37. CBBI also expressed concern about the ability of Central Pacific to manage and operate CBBI and City Bank in the event that Central Pacific does not acquire sufficient shares of CBBI to effect a corporate merger. The Board previously has noted that the BHC Act permits a company to acquire less than all the shares of a bank or a bank holding company. *See North Fork, BONY.* Central Pacific has stated that it expects to acquire sufficient shares to effect a corporate merger with CBBI and does not intend to be a minority shareholder of CBBI. The Board is unable to predict at this time whether Central Pacific will succeed with its proposal or whether the level it is able to acquire will cause dissension in the ongoing operation of CBBI. However, the Board notes that both Central Pacific and CBBI have capable managements, and the Federal Reserve maintains sufficient authority to take appropriate action if necessary to require the safe and sound operation and management of the institutions.

38. *See* Haw. Rev. Stat. §414E (2003) (the "Hawaii Control Share Acquisition Act" or "HCSAA") (any shares of a Hawaiian corporation held by a party that has acquired more than 10 percent of the corporation without the approval of either the corporation's directors or a majority of the voting shares of the corporation are denied voting rights for one year, are nontransferable, and may be redeemed at book value by the acquired corporation). On May 28, 2003, CBBI convened a shareholder meeting pursuant to the HCSAA. The shareholders voting at this meeting failed to approve Central Pacific's offer to acquire CBBI. CBBI asserts that, in light of the results of the May 28 meeting, Central Pacific is barred from consummating its offer to acquire CBBI.

("CBBI rights plan").[39] CBBI argues that the HCSAA and the CBBI rights plan present insurmountable barriers to Central Pacific's contested acquisition of CBBI.[40]

The Board may not approve the acquisition of a bank by a bank holding company if the acquisition is prohibited by state law.[41] The Board, however, has previously approved transactions on condition that the particular transaction is consummated only in compliance with applicable state law.[42]

The HCSAA is part of the general corporate law, not a statute governing the banking activities or operations of the companies involved in the proposal. Whether the HCSAA is an obstacle to consummation of this transaction depends on the actions taken by the management and shareholders of CBBI. For example, the HCSAA would not prevent consummation of the proposal if either CBBI's management or shareholders approve the transaction. Central Pacific has stated that it will not consummate the proposal unless it obtains approval as required by the HCSAA. The Board's approval is conditioned on compliance by Central Pacific with all applicable Hawaiian law governing this transaction.

CBBI's board of directors has significant discretion in determining whether the CBBI rights plan will become effective in a particular case and, specifically, whether it will have any effect on this proposal. Central Pacific has stated that it will condition its tender offer for CBBI shares on, among other things, the inapplicability of the CBBI rights plan. Because the cost of consummating the transaction would be significantly affected if the CBBI rights plan is triggered, the Board's approval is limited to consummation of the proposal without applying the CBBI rights plan.

Nonbanking Activities

Central Pacific also has filed a notice under sections 4(c)(8) and 4(j) of the BHC Act to acquire Datatronix, a nonbanking subsidiary of CBBI that engages in data processing and data transmission activities. The Board has determined by regulation that the activity for which notice has been provided is closely related to banking for purposes of section 4(c)(8) of the BHC Act and, therefore, permissible for bank holding companies.[43] Central Pacific has committed to conduct this activity in accordance with the Board's regulations and orders governing this activity for bank holding companies.

In order to approve this notice, the Board also must determine that the acquisition of Datatronix and the performance of the proposed activities by Central Pacific can reasonably be expected to produce benefits to the public that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices.[44] As part of its evaluation of these factors, the Board considers the financial and managerial resources of Central Pacific and its subsidiaries, and the company to be acquired, and the effect of the proposed transaction on those resources. For the reasons noted above, and based on all the facts of record, the Board has concluded that financial and managerial considerations are consistent with approval of the notice.

The Board has considered the competitive effects of Central Pacific's proposed acquisition of Datatronix in light of all the facts of record. The markets for data processing and data transmission activities are national and unconcentrated. The record in this case also indicates that there are numerous providers of these services. Based on all the facts of record, the Board concludes that consummation of the proposal would have a *de minimis* effect on competition for the proposed services. Accordingly, the Board concludes that it is unlikely that significantly adverse competitive effects would result from the nonbanking acquisition proposed in the transaction.

Central Pacific has indicated that the proposal would enable it, through its bank and nonbank subsidiaries, to provide CBBI and Datatronix customers with access to certain investment and trust products and services that CBBI and Datatronix currently do not offer. Furthermore, customers of CBBI would have an expanded service area, with numerous offices and ATMs throughout the state. In addition, Central Pacific has stated that it might integrate Datatronix with Central Pacific's existing bank servicing data processing assets, which could yield cost savings to consumers through the elimination of certain operational and administrative redundancies.

The Board also concludes that the conduct of the proposed nonbanking activities within the framework established in this order and Regulation Y is not likely to result in adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices, that would not be outweighed by the public benefits of the proposal, such as increased customer convenience and gains in efficiency. Accordingly, based on all the facts of record, the Board has

39. Under the CBBI rights plan, rights to purchase additional shares of CBBI or any successor corporation at a set price will be distributed to all shareholders of CBBI at a specified time. CBBI's board of directors may cause the company to redeem these rights at any time before the distribution date.

40. CBBI has initiated a lawsuit alleging that Central Pacific and other parties violated the HCSAA through a voting agreement and Central Pacific has initiated a lawsuit challenging the validity of the CBBI rights plan. CBBI asserts that the Board should delay consideration of the Central Pacific/CBBI application until the legal actions are resolved. The matters raised by CBBI and Central Pacific are matters of general corporate law appropriately within the jurisdiction of the courts to determine, and Board action under the BHC Act would not interfere with judicial review of the pending lawsuits. In light of this order's condition, discussed in this section, that Central Pacific must comply with state law in consummating the transaction, the Board does not believe that a delay in its review under the BHC Act is warranted.

41. *See Whitney National Bank of Jefferson Parish v. Bank of New Orleans and Trust Company*, 379 U.S. 411 (1965); *Security Pecos Bancshares, Inc.*, 85 *Federal Reserve Bulletin* 640, 641 (1999).

42. *See North Fork; BONY.*

43. *See* 12 C.F.R. 225.28(b)(14).

44. *See* 12 U.S.C. § 1843(j)(2)(A).

determined that the balance of public interest factors that it must consider under the standard of section 4(j) of the BHC Act is favorable and consistent with approval of the proposal.

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the proposed transaction should be, and hereby is, approved.[45] In reaching its conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act and other applicable statutes. The Board's approval is specifically conditioned on compliance by Central Pacific with the conditions imposed in this order and the commitments made in connection with the application and notice, including compliance with state law. In particular, in the event of any material change in the transaction, such as a material change in the price, financing, terms, conditions, or structure of the transaction, or an inability to complete all the aspects of the transaction as proposed, Central Pacific must consult with the Board to determine whether the change is consistent with the Board's action in this case, or whether further Board action is necessary. The Board reserves the right in the event of significant changes in the proposal to require a new application from Central Pacific. The Board's approval of the nonbanking aspects of the proposal also is subject to all the conditions set forth in Regulation Y, including those in sections 225.7 and 225.25(c) of Regulation Y (12 C.F.R. 225.7 and 225.25(c)), and to the Board's authority to require such modification or termination of the activities of a bank holding company or any of its subsidiaries as the Board find necessary to ensure compliance with, and to prevent evasion of, the provisions of the BHC Act and the Board's regulations and orders issued thereunder. The commitments made in the application process are deemed to be conditions imposed in writing by the Board in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

In previous cases, the Board has recognized that a prolonged contest for ownership of a banking institution might result in adverse effects on the financial and managerial resources of the organizations or other factors.[46] CBBI has expressed concern that a prolonged, contested acquisition of CBBI would be costly to CBBI and Central Pacific and would divert the time and resources of the management of these institutions.

The BHC Act does not provide a specific time period for consummation of a transaction. Generally, however, the Board requires consummation of an approved transaction within three months from the date of the Board's order to ensure that there are no substantial changes in an applicant's or target's condition or other factors that might require the Board to reconsider its approval.

In this case, although prolonged delay may have a negative impact on Central Pacific and CBBI, a short delay should not affect the financial or managerial resources of either organization or other factors so severely as to warrant denial of the proposal. Accordingly, the Board has followed its standard practice and requires that the transaction, including the acquisition of at least a majority of the shares of CBBI, be consummated within three months after the effective date of this order unless that period is extended by the Board. If Central Pacific requests an extension of time to consummate the proposal, the Board will examine carefully all relevant circumstances, and may require Central Pacific to provide supplemental information if necessary to evaluate the managerial and financial resources of Central Pacific and CBBI or other factors at the time any extension is requested, and the impact of any extension on those resources and on the other statutory factors that the Board must consider under the BHC Act. The Board would extend the consummation period only if the Board is satisfied that the statutory factors continue to be met. The proposed banking acquisition may not be consummated before the fifteenth calendar day after the effective date of this order.

By order of the Board of Governors, effective December 15, 2003.

Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Gramlich, Bies, Olson, Bernanke, and Kohn.

ROBERT DEV. FRIERSON
Deputy Secretary of the Board

Appendix A

Hawaiian Banking Markets in which Central Pacific Competes Directly with CBBI

45. CBBI requested that the Board hold a public meeting or hearing on the proposal. Section 3(b) of the BHC Act does not require the Board to hold a public hearing on an application unless the appropriate supervisory authority for the bank to be acquired makes a timely written recommendation of denial of the application. The Board has not received such a recommendation from the appropriate supervisory authorities.

Under its regulations, the Board also may, in its discretion, hold a public meeting or hearing on an application to acquire a bank if a meeting or hearing is necessary or appropriate to clarify factual issues related to the application and to provide an opportunity for testimony. 12 C.F.R. 225.16(e). Section 4 of the BHC Act and the Board's regulations provide for a hearing on a notice to acquire nonbanking companies if there are disputed issues of material fact that cannot be resolved in some other manner. 12 U.S.C. § 1843(c)(8); 12 C.F.R. 225.25(a)(2). The Board has considered carefully CBBI's request in light of all the facts of record. In the Board's view, CBBI has had ample opportunity to submit its views, and has submitted written comments that have been considered carefully by the Board in acting on the proposal. CBBI's request fails to demonstrate why its written comments do not present its evidence adequately and fails to identify disputed issues of fact that are material to the Board's decision that would be clarified by a public meeting or hearing. For these reasons, and based on all the facts of record, the Board has determined that a public meeting or hearing is not required or warranted in this case. Accordingly, the request for a public meeting or hearing on the proposal is denied.

46. *See North Fork* at 775; *BONY* at 259, 272.

East Hawaii Island (Hilo)

Eastern portion of the island of Hawaii, including the Hilo Ranally Metro Area ("RMA") and the town of Pahoa.

Honolulu

Honolulu RMA.

Kauai

The island of Kauai, including the towns of Eleele, Hanalei, Hanapepe, Kapaa, Koloa, Lihue, Princeville, and Waimea.

West Maui

Western portion of the island of Maui, including the towns of Kahului, Kihei, Lahaina, Paia, Pukalani, Wailea, and Wailuku.

Appendix B

Banking Markets

East Hawaii Island (Hilo)

Central Pacific operates the fourth largest depository institution in the market, controlling deposits of approximately $59.1 million, which represent approximately 8.5 percent of market deposits. CBBI operates the fifth largest depository institution in the market, controlling deposits of approximately $30.3 million, which represent approximately 4.3 percent of market deposits. On consummation of the proposal, Central Pacific would operate the third largest depository institution in the market, controlling deposits of approximately $89.4 million, which represent approximately 12.8 percent of market deposits. Seven depository institutions would remain in the market. The HHI would increase by 73 points to 2727.

Honolulu

Central Pacific operates the fourth largest depository institution in the market, controlling deposits of approximately $1.5 billion, which represent approximately 10.1 percent of market deposits. CBBI operates the fifth largest depository institution in the market, controlling deposits of approximately $1.1 billion, which represent approximately 7.5 percent of market deposits. On consummation of the proposal, Central Pacific would operate the third largest depository institution in the market, controlling deposits of approximately $2.6 billion, which represent approximately 17.6 percent of market deposits. Eight depository institutions would remain in the market. The HHI would increase by 150 points to 2659.

Kauai

Central Pacific operates the fourth largest depository institution in the market, controlling deposits of approximately $47.4 million, which represent approximately 6.8 percent of market deposits. CBBI operates the sixth largest depository institution in the market, controlling deposits of approximately $1.1 million, represent less than 1 percent of market deposits. On consummation of the proposal, Central Pacific would remain the fourth largest depository institution in the market, controlling deposits of approximately $48.6 million, which represent approximately 7 percent of market deposits. Five depository institutions would remain in the market. The HHI would increase by 2 points to 3598.

West Maui

Central Pacific operates the fourth largest depository institution in the market, controlling deposits of approximately $79 million, which represent approximately 5.6 percent of market deposits. CBBI operates the fifth largest depository institution in the market, controlling deposits of approximately $51.8 million, which represent approximately 3.7 percent of market deposits. On consummation of the proposal, Central Pacific would remain the fourth largest depository institution in the market, controlling deposits of approximately $130.7 million, which represent approximately 9.3 percent of market deposits. Six depository institutions would remain in the market. The HHI would increase by 42 points to 3095.

ORDERS ISSUED UNDER INTERNATIONAL BANKING ACT

HBOS Treasury Services plc
London, United Kingdom

Order Approving Establishment of a Branch

HBOS Treasury Services plc ("Bank"), London, United Kingdom, a foreign bank within the meaning of the International Banking Act ("IBA"), has applied under section 7(d) of the IBA (12 U.S.C. §3105(d)) to establish a branch in New York, New York. The Foreign Bank Supervision Enhancement Act of 1991, which amended the IBA, provides that a foreign bank must obtain the approval of the Board to establish a branch in the United States.

Notice of the application, affording interested persons an opportunity to comment, has been published in newspapers of general circulation in New York, New York (*New York Post*, July 10, 2003). The time for filing comments has expired, and all comments have been considered.

Bank, with total assets of $272 billion, is a wholly owned subsidiary of The Governor and Company of the Bank of Scotland ("Bank of Scotland"), Edinburgh, United Kingdom. Bank of Scotland, in turn, is a wholly owned subsidiary of HBOS plc ("HBOS"), also in Edinburgh, which is the top tier holding company for the HBOS group. HBOS, with consolidated assets of $631 billion, is the third largest banking organization in the United Kingdom.[1] The shares of HBOS plc are publicly traded, and no person holds more than 5 percent of its voting shares. Bank provides global treasury services and serves as the main funding source for HBOS. HBOS is primarily engaged in banking, insurance, and investment and has operations throughout the world. HBOS, Bank of Scotland, and Bank are qualifying foreign banking organizations pursuant to Regulation K.

Bank currently has no operations in the United States. Its parent, Bank of Scotland, operates a branch in New York and representative offices in Chicago, Houston, Los Angeles, Minneapolis, Seattle, and Boston and engages through nonbank subsidiaries in a range of financial activities. Bank's proposed New York branch would assume the treasury functions of Bank of Scotland's New York branch, which include deposit taking, issuance of high-denomination certificates of deposit, purchases of medium-term notes, and interbank lending and borrowing.

In order to approve an application by a foreign bank to establish a branch in the United States, the IBA and Regulation K require the Board to determine that the foreign bank applicant engages directly in the business of banking outside of the United States and has furnished to the Board the information it needs to assess the application adequately. The Board also shall take into account whether the foreign bank and any foreign bank parent is subject to comprehensive supervision or regulation on a consolidated basis by its home country supervisor (12 U.S.C. §3105(d)(2); 12 C.F.R. 211.24).[2] The Board may also take into account additional standards as set forth in the IBA and Regulation K (12 U.S.C. §3105(d)(3)–(4); 12 C.F.R. 211.24(c)(2)–(3)).

As noted above, Bank engages directly in the business of banking outside the United States. Bank also has provided the Board with information necessary to assess the application through submissions that address the relevant issues.

With respect to supervision by home country authorities, the Board previously has determined, in connection with applications involving other banks in the United Kingdom, including Bank of Scotland, that those banks were subject to home country supervision on a consolidated basis.[3] Bank is, and Bank of Scotland remains, supervised by the Financial Services Authority ("FSA") on substantially the same terms and conditions as those other banks. Based on all the facts of record, it has been determined that Bank and Bank of Scotland are subject to comprehensive supervision on a consolidated basis by their home country supervisor.

The Board has also taken into account the additional standards set forth in section 7 of the IBA and Regulation K (see 12 U.S.C. §3105(d)(3)–(4); 12 C.F.R. 211.24(c)(2)–(3)). The FSA has no objection to the establishment of the proposed branch.

The United Kingdom's risk-based capital standards are consistent with those established by the Basel Capital Accord. Bank's capital is in excess of the minimum levels that would be required by the Basel Capital Accord and is considered equivalent to capital that would be required of a U.S. banking organization. Managerial and other financial resources of Bank also are considered consistent with approval, and Bank appears to have the experience and capacity to support the proposed branch. In addition, Bank has established controls and procedures for the proposed branch to ensure compliance with U.S. law, as well as controls and procedures for its worldwide operations generally.

The United Kingdom is a member of the Financial Action Task Force and subscribes to its recommendations on measures to combat money laundering. In accordance with these recommendations, the United Kingdom has enacted laws and created legislative and regulatory standards to deter money laundering. Money laundering is a criminal offense in the United Kingdom, and financial institutions are required to establish internal policies, procedures, and systems for the detection and prevention of money laundering throughout their worldwide operations. Bank has policies and procedures to comply with these laws and regulations. Bank's compliance with applicable laws and regulations is monitored by Bank's internal auditors and the FSA.

With respect to access to information about Bank's operations, the Board has reviewed the restrictions on disclosure in relevant jurisdictions in which Bank operates and has communicated with relevant government authorities regarding access to information. Bank and its ultimate parent, HBOS, have committed to make available to the Board such information on the operations of Bank and any of its affiliates that the Board deems necessary to determine and enforce compliance with the IBA, the Bank Holding Company Act, and other applicable federal law. To the extent that the provision of such information to the Board may be prohibited by law or otherwise, Bank and its ultimate parent have committed to cooperate with the Board to obtain any necessary consents or waivers that might be required from third parties for disclosure of such

1. Asset data are as of June 30, 2003.

2. In assessing this standard, the Board considers, among other factors, the extent to which the home country supervisors:

(i) ensure that the bank has adequate procedures for monitoring and controlling its activities worldwide;
(ii) obtain information on the condition of the bank and its subsidiaries and offices through regular examination reports, audit reports, or otherwise;
(iii) obtain information on the dealings with and relationship between the bank and its affiliates, both foreign and domestic;
(iv) receive from the bank financial reports that are consolidated on a worldwide basis or comparable information that permits analysis of the bank's financial condition on a worldwide consolidated basis;
(v) evaluate prudential standards, such as capital adequacy and risk asset exposure, on a worldwide basis. These are indicia of comprehensive, consolidated supervision. No single factor is essential, and other elements may inform the Board's determination.

3. *See, e.g., The Royal Bank of Scotland*, 89 *Federal Reserve Bulletin* 386 (2003); *Abbey National Treasury Services plc*, 87 *Federal Reserve Bulletin* 750 (2001); *see also Bank of Scotland*, 84 *Federal Reserve Bulletin* 230 (1998).

information. In addition, subject to certain conditions, the FSA may share information on Bank's operations with other supervisors, including the Board. In light of these commitments and other facts of record, and subject to the condition described below, it has been determined that Bank has provided adequate assurances of access to any necessary information that the Board may request.

On the basis of all the facts of record, and subject to the commitments made by Bank and its ultimate parent, as well as the terms and conditions set forth in this order, Bank's application to establish a branch is hereby approved.[4] Should any restrictions on access to information on the operations or activities of Bank and its affiliates subsequently interfere with the Board's ability to obtain information to determine and enforce compliance by Bank or its affiliates with applicable federal statutes, the Board may require termination of any of Bank's direct or indirect activities in the United States, or in the case of any such operation licensed by the Office of the Comptroller of the Currency, recommend termination of such operation. Approval of this application also is specifically conditioned on compliance by Bank with the commitments made in connection with this application and with the conditions in this order.[5] The commitments and conditions referred to above are conditions imposed in writing in connection with this decision and may be enforced in proceedings under 12 U.S.C. § 1818 against Bank and its affiliates.

By order, approved pursuant to authority delegated by the Board, effective November 7, 2003.

ROBERT DEV. FRIERSON
Deputy Secretary of the Board

Macquarie Bank Limited
Sydney, Australia

Order Approving Establishment of Representative Offices

Macquarie Bank Limited ("Bank"), Sydney, Australia, a foreign bank within the meaning of the International Banking Act ("IBA"), has applied under section 10(a) of the IBA (12 U.S.C. § 3107(a)) to establish representative offices in New York, New York, and Houston, Texas. The Foreign Bank Supervision Enhancement Act of 1991, which amended the IBA, provides that a foreign bank must obtain the approval of the Board to establish a representative office in the United States.

Notice of the application, affording interested persons an opportunity to comment, has been published in a newspaper of general circulation in New York, New York (*New York Post*, March 28, 2003), and Houston, Texas (*Houston Chronicle*, April 17, 2003). The time for filing comments has expired, and all comments have been considered.

Bank, with total assets of approximately $25 billion, is the sixth largest bank in Australia.[1] Bank's shares are publicly traded. The largest shareholder, Commonwealth Bank of Australia Group, holds 12 percent of Bank's shares.[2] Bank is engaged substantially in investment banking activities. It is the parent of the Macquarie Group and conducts a wide range of nonbanking activities through its subsidiaries, including investment management and advisory services, investment in infrastructure projects, and underwriting and dealing as principal and agent in securities and derivatives. Bank currently operates a number of nonbanking subsidiaries in the United States engaged in real estate financing, commodities trading, and investment banking.

Bank seeks to establish representative offices in New York and Houston to provide liaison services and to market corporate loans, project finance loans, commodities forwards, options, swaps, and other structured derivatives. The representative offices will not make any credit decisions; will not have responsibility for the execution, delivery, or performance of any contract; and will not bind Bank to any contract other than contracts necessary for the operation of the offices, such as leases and personnel contracts.

In order to approve an application by a foreign bank to establish a representative office in the United States, the IBA and Regulation K require the Board to determine that the foreign bank applicant engages directly in the business of banking outside the United States and has furnished to the Board the information it needs to assess the application adequately. The Board also shall take into account whether the foreign bank and any foreign bank parent is subject to comprehensive supervision or regulation on a consolidated basis by its home country supervisor (12 U.S.C. § 3107(a)(2); 12 C.F.R. 211.24(d)(2)).[3] In the case of an

4. Approved by the Director of the Division of Banking Supervision and Regulation, with the concurrence of the General Counsel, pursuant to authority delegated by the Board.

5. The Board's authority to approve the establishment of the proposed branch parallels the continuing authority of the Office of the Comptroller of the Currency to license offices of a foreign bank. The Board's approval of this application does not supplant the authority of the Office of the Comptroller of the Currency to license the proposed office of Bank in accordance with any terms or conditions that it may impose.

1. Asset data are as of September 30, 2003.

2. Substantially all these shares are held by fund management entities in the Commonwealth Bank of Australia Group in trust for investors. In addition, the Permanent Trustee Company Limited holds 7.21 percent, Deutsche Australia Limited holds 6.08 percent, Merrill Lynch Investment Management holds 5.27 percent, and ING Australia Holdings Limited holds 5 percent of Bank's shares. No other shareholder holds 5 percent or more of the Bank's shares.

3. In assessing this standard, the Board considers, among other factors, the extent to which the home country supervisors:

(i) ensure that the bank has adequate procedures for monitoring and controlling its activities worldwide;
(ii) obtain information on the condition of the bank and its subsidiaries and offices through regular examination reports, audit reports, or otherwise;
(iii) obtain information on the dealings with and relationship between the bank and its affiliates, both foreign and domestic;
(iv) receive from the bank financial reports that are consolidated on a worldwide basis or comparable information that permits analysis of the bank's financial condition on a worldwide consolidated basis;

application to establish a representative office, the standard with respect to home country supervision will be met if the applicant bank is subject to a supervisory framework that is consistent with the activities of the proposed office, taking into account the nature of the activities and the operating record of the applicant. (12 C.F.R. 211.24(d)(2)). The Board may also take into account additional standards as set forth in the IBA and Regulation K (12 U.S.C. §3105(d)(3)–(4); 12 C.F.R. 211.24(c)(2)).

As noted above, Bank engages directly in the business of banking outside the United States. Bank also has provided the Board with information necessary to assess the application through submissions that address the relevant issues.

With respect to supervision of Bank by home country authorities, the Board has considered the following information. Bank is an authorized deposit-taking institution and is supervised by the Australian Prudential Regulation Authority ("APRA"). APRA supervises and regulates Bank through a combination of regular on-site reviews and off-site monitoring. On-site examinations cover the areas of credit quality, balance sheet and market risk, insurance risk and operational risk. Off-site monitoring is conducted through a monthly review of Bank's balance sheet for domestic operations and a quarterly review of Bank's international operations and consolidated balance sheets. APRA also obtains quarterly global consolidated data on capital adequacy, market risk, impaired assets, large exposures and profit and loss.

Bank is subject to annual statutory audit, the results of which are communicated to APRA. Bank, its external auditors, and APRA meet annually to discuss any issues arising from reports of the external auditors. Bank's internal controls are also subject to review by the external auditors.

Based on all the facts of record, it has been determined that factors relating to the supervision of Bank by its home country supervisor are consistent with approval of the proposed representative offices.

The additional standards set forth in section 7 of the IBA and Regulation K (*see* 12 U.S.C. §3105(d)(3)–(4); 12 C.F.R. 211.24(c)(2)) have also been taken into account. APRA has no objection to the establishment of the proposed representative office.

With respect to the financial and managerial resources of Bank, taking into consideration Bank's record of operation in its home country, its overall financial resources, and its standing with its home country supervisor, it has been determined that financial and managerial factors are consistent with approval of the proposed representative offices. Bank appears to have the experience and capacity to support the proposed representative offices and has established controls and procedures for the proposed representative offices to ensure compliance with U.S. law.

(v) evaluate prudential standards, such as capital adequacy and risk asset exposure, on a worldwide basis. These are indicia of comprehensive, consolidated supervision. No single factor is essential, and other elements may inform the Board's determination.

Australia is a member of the Financial Action Task Force and subscribes to its recommendations on measures to combat money laundering. In accordance with these recommendations, Australia has enacted laws and developed regulatory standards to deter money laundering. Money laundering is a criminal offense in Australia, and Bank has established internal policies, procedures, and systems for the detection and prevention of money laundering throughout its worldwide operations. Bank's anti-money laundering policies and procedures are monitored by the Australian Transaction Reports and Analysis Centre, which is Australia's financial intelligence unit and anti-money laundering agency.

With respect to access to information about Bank's operations, the restrictions on disclosure in relevant jurisdictions in which Bank operates have been reviewed and relevant government authorities have been communicated with regarding access to information. Bank has committed to make available to the Board such information on the operations of Bank and any of its affiliates that the Board deems necessary to determine and enforce compliance with the IBA, the Bank Holding Company Act, and other applicable federal law. To the extent that the provision of such information to the Board may be prohibited by law or otherwise, Bank has committed to cooperate with the Board to obtain any necessary consents or waivers that might be required from third parties for disclosure of such information. In light of these commitments and other facts of record, and subject to the conditions described below, it has been determined that Bank has provided adequate assurances of access to any necessary information that the Board may request.

On the basis of all the facts of record, and subject to the commitments made by Bank, as well as the terms and conditions set forth in this order, Bank's application to establish representative offices in New York and Houston is hereby approved.[4] Should any restrictions on access to information on the operations or activities of Bank or any of its affiliates subsequently interfere with the Board's ability to obtain information to determine and enforce compliance by Bank or its affiliates with applicable federal statutes, the Board may require or recommend termination of any of Bank's direct or indirect activities in the United States. Approval of this application also is specifically conditioned on compliance by Bank with the commitments made in connection with this application and with the conditions in this order.[5] The commitments and conditions referred to above are deemed to be conditions imposed in

4. Approved by the Director of the Division of Banking Supervision and Regulation, with the concurrence of the General Counsel, pursuant to authority delegated by the Board. *See* 12 C.F.R. 265.7(d)(12).

5. The authority to approve the establishment of the proposed representative offices parallels the continuing authority of New York and Texas to license offices of a foreign bank. Approval of this application does not supplant the authority of those states or their agents to license the proposed representative offices of Bank in accordance with any terms or conditions that they may impose.

writing in connection with these findings and decision and may be enforced in proceedings under applicable law.

By order, approved pursuant to authority delegated by the Board, effective November 26, 2003.

ROBERT DEV. FRIERSON
Deputy Secretary of the Board

Federal Reserve Board of Governors and Official Staff

ALAN GREENSPAN, *Chairman*
ROGER W. FERGUSON, JR., *Vice Chairman*
EDWARD M. GRAMLICH
SUSAN SCHMIDT BIES

OFFICE OF BOARD MEMBERS

MICHELLE A. SMITH, *Director*
WINTHROP P. HAMBLEY, *Assistant to the Board and Director for Congressional Liaison*
ROSANNA PIANALTO-CAMERON, *Special Assistant to the Board*
DAVID W. SKIDMORE, *Special Assistant to the Board*
LARICKE D. BLANCHARD, *Special Assistant to the Board for Congressional Liaison*

LEGAL DIVISION

J. VIRGIL MATTINGLY, JR., *General Counsel*
SCOTT G. ALVAREZ, *Associate General Counsel*
RICHARD M. ASHTON, *Associate General Counsel*
STEPHANIE MARTIN, *Associate General Counsel*
KATHLEEN M. O'DAY, *Associate General Counsel*
ANN E. MISBACK, *Assistant General Counsel*
STEPHEN L. SICILIANO, *Assistant General Counsel*
KATHERINE H. WHEATLEY, *Assistant General Counsel*
CARY K. WILLIAMS, *Assistant General Counsel*

OFFICE OF THE SECRETARY

JENNIFER J. JOHNSON, *Secretary*
ROBERT DEV. FRIERSON, *Deputy Secretary*
MARGARET M. SHANKS, *Assistant Secretary*

DIVISION OF BANKING SUPERVISION AND REGULATION

RICHARD SPILLENKOTHEN, *Director*
STEPHEN M. HOFFMAN, JR., *Deputy Director*
HERBERT A. BIERN, *Senior Associate Director*
ROGER T. COLE, *Senior Associate Director*
MICHAEL G. MARTINSON, *Senior Adviser*
STEPHEN C. SCHEMERING, *Senior Adviser*
DEBORAH P. BAILEY, *Associate Director*
NORAH M. BARGER, *Associate Director*
BETSY CROSS, *Associate Director*
GERALD A. EDWARDS, JR., *Associate Director*
JAMES V. HOUPT, *Associate Director*
JACK P. JENNINGS, *Associate Director*
PETER J. PURCELL, *Associate Director*
MOLLY S. WASSOM, *Associate Director*
DAVID M. WRIGHT, *Associate Director*
HOWARD A. AMER, *Deputy Associate Director*
BARBARA J. BOUCHARD, *Deputy Associate Director*
ANGELA DESMOND, *Deputy Associate Director*
JAMES A. EMBERSIT, *Deputy Associate Director*
CHARLES H. HOLM, *Deputy Associate Director*
WILLIAM G. SPANIEL, *Deputy Associate Director*
JON D. GREENLEE, *Assistant Director*
WALT H. MILES, *Assistant Director*
WILLIAM F. TREACY, *Assistant Director*
WILLIAM C. SCHNEIDER, JR., *Project Director, National Information Center*

DIVISION OF INTERNATIONAL FINANCE

KAREN H. JOHNSON, *Director*
DAVID H. HOWARD, *Deputy Director*
THOMAS A. CONNORS, *Associate Director*
WILLIAM L. HELKIE, *Senior Adviser*
DALE W. HENDERSON, *Senior Adviser*
RICHARD T. FREEMAN, *Deputy Associate Director*
STEVEN B. KAMIN, *Deputy Associate Director*
JON W. FAUST, *Assistant Director*
JOSEPH E. GAGNON, *Assistant Director*
WILLENE A. JOHNSON, *Adviser*
MICHAEL P. LEAHY, *Assistant Director*
D. NATHAN SHEETS, *Assistant Director*
RALPH W. TRYON, *Assistant Director*

DIVISION OF RESEARCH AND STATISTICS

DAVID J. STOCKTON, *Director*
EDWARD C. ETTIN, *Deputy Director*
DAVID W. WILCOX, *Deputy Director*
MYRON L. KWAST, *Associate Director*
STEPHEN D. OLINER, *Associate Director*
PATRICK M. PARKINSON, *Associate Director*
LAWRENCE SLIFMAN, *Associate Director*
CHARLES S. STRUCKMEYER, *Associate Director*
JOYCE K. ZICKLER, *Deputy Associate Director*
J. NELLIE LIANG, *Assistant Director*
S. WAYNE PASSMORE, *Assistant Director*
DAVID L. REIFSCHNEIDER, *Assistant Director*
JANICE SHACK-MARQUEZ, *Assistant Director*
WILLIAM L. WASCHER III, *Assistant Director*
MARY M. WEST, *Assistant Director*
ALICE PATRICIA WHITE, *Assistant Director*
GLENN B. CANNER, *Senior Adviser*
DAVID S. JONES, *Senior Adviser*
THOMAS D. SIMPSON, *Senior Adviser*

DIVISION OF MONETARY AFFAIRS

VINCENT R. REINHART, *Director*
BRIAN F. MADIGAN, *Deputy Director*
JAMES A. CLOUSE, *Deputy Associate Director*
WILLIAM C. WHITESELL, *Deputy Associate Director*
CHERYL L. EDWARDS, *Assistant Director*
WILLIAM B. ENGLISH, *Assistant Director*
RICHARD D. PORTER, *Senior Adviser*
ATHANASIOS ORPHANIDES, *Adviser*
NORMAND R.V. BERNARD, *Special Assistant to the Board*

MARK W. OLSON
BEN S. BERNANKE

DONALD L. KOHN

DIVISION OF CONSUMER AND COMMUNITY AFFAIRS

DOLORES S. SMITH, *Director*
GLENN E. LONEY, *Deputy Director*
SANDRA F. BRAUNSTEIN, *Senior Associate Director*
ADRIENNE D. HURT, *Associate Director*
IRENE SHAWN MCNULTY, *Associate Director*
JAMES A. MICHAELS, *Assistant Director*
TONDA E. PRICE, *Assistant Director*

OFFICE OF STAFF DIRECTOR FOR MANAGEMENT

STEPHEN R. MALPHRUS, *Staff Director*
SHEILA CLARK, *EEO Programs Director*
LYNN S. FOX, *Senior Adviser*

MANAGEMENT DIVISION

H. FAY PETERS, *Director*
STEPHEN J. CLARK, *Associate Director*
DARRELL R. PAULEY, *Associate Director*
CHRISTINE M. FIELDS, *Assistant Director*
BILLY J. SAULS, *Assistant Director*
DONALD A. SPICER, *Assistant Director*

DIVISION OF INFORMATION TECHNOLOGY

MARIANNE M. EMERSON, *Director*
MAUREEN T. HANNAN, *Deputy Director*
TILLENA G. CLARK, *Assistant Director*
GEARY L. CUNNINGHAM, *Assistant Director*
WAYNE A. EDMONDSON, *Assistant Director*
PO KYUNG KIM, *Assistant Director*
SUSAN F. MARYCZ, *Assistant Director*
SHARON L. MOWRY, *Assistant Director*
RAYMOND ROMERO, *Assistant Director*

DIVISION OF RESERVE BANK OPERATIONS AND PAYMENT SYSTEMS

LOUISE L. ROSEMAN, *Director*
PAUL W. BETTGE, *Associate Director*
JEFFREY C. MARQUARDT, *Associate Director*
KENNETH D. BUCKLEY, *Assistant Director*
JOSEPH H. HAYES, JR., *Assistant Director*
LISA HOSKINS, *Assistant Director*
DOROTHY LACHAPELLE, *Assistant Director*
EDGAR A. MARTINDALE III, *Assistant Director*
MARSHA W. REIDHILL, *Assistant Director*
JEFF J. STEHM, *Assistant Director*
JACK K. WALTON II, *Assistant Director*

OFFICE OF THE INSPECTOR GENERAL

BARRY R. SNYDER, *Inspector General*
DONALD L. ROBINSON, *Deputy Inspector General*

Federal Open Market Committee and Advisory Councils

FEDERAL OPEN MARKET COMMITTEE

MEMBERS

ALAN GREENSPAN, *Chairman*

TIMOTHY F. GEITHNER, *Vice Chairman*

BEN S. BERNANKE
SUSAN SCHMIDT BIES
ROGER W. FERGUSON, JR.
EDWARD M. GRAMLICH
THOMAS M. HOENIG
DONALD L. KOHN
CATHY E. MINEHAN
MARK W. OLSON
SANDRA PIANALTO
WILLIAM POOLE

ALTERNATE MEMBERS

ROBERT D. MCTEER, JR.
MICHAEL H. MOSKOW
GARY H. STERN
ANTHONY M. SANTOMERO

STAFF

VINCENT R. REINHART, *Secretary and Economist*
NORMAND R.V. BERNARD, *Deputy Secretary*
MICHELLE A. SMITH, *Assistant Secretary*
J. VIRGIL MATTINGLY, JR., *General Counsel*
THOMAS C. BAXTER, JR., *Deputy General Counsel*
KAREN H. JOHNSON, *Economist*
DAVID J. STOCKTON, *Economist*
THOMAS A. CONNORS, *Associate Economist*
CHRISTINE M. CUMMING, *Associate Economist*
JEFFREY C. FUHRER, *Associate Economist*
CRAIG S. HAKKIO, *Associate Economist*
DAVID H. HOWARD, *Associate Economist*
BRIAN F. MADIGAN, *Associate Economist*
RICHARD H. RASCHE, *Associate Economist*
LAWRENCE SLIFMAN, *Associate Economist*
MARK S. SNIDERMAN, *Associate Economist*
DAVID W. WILCOX, *Associate Economist*

DINO KOS, *Manager, System Open Market Account*

FEDERAL ADVISORY COUNCIL

DAVID A. SPINA, *President*
DAVID W. KEMPER, *Vice President*

DAVID A. SPINA, First District
THOMAS A. RENYI, Second District
RUFUS A. FULTON, JR., Third District
MARTIN G. MCGUINN, Fourth District
FRED L. GREEN III, Fifth District
C. DOWD RITTER, Sixth District
VACANT, Seventh District
DAVID W. KEMPER, Eighth District
JERRY A. GRUNDHOFER, Ninth District
BYRON G. THOMPSON, Tenth District
GAYLE M. EARLS, Eleventh District
MICHAEL E. O'NEILL, Twelfth District

JAMES ANNABLE, *Co-Secretary*

CONSUMER ADVISORY COUNCIL

AGNES BUNDY SCANLAN, Boston, Massachusetts, *Chairman*
MARK PINSKY, Philadelphia, Pennsylvania, *Vice Chairman*

DENNIS L. ALGIERE, Westerly, Rhode Island
JANIE BARRERA, San Antonio, Texas
KENNETH P. BORDELON, Baton Rouge, Louisiana
SUSAN BREDEHOFT, Cherry Hill, New Jersey
SHEILA CANAVAN, Berkeley, California
ROBIN COFFEY, Chicago, Illinois
ANNE DIEDRICK, New York, New York
DAN DIXON, Washington, District of Columbia
HATTIE B. DORSEY, Atlanta, Georgia
THOMAS FITZGIBBON, Chicago, Illinois
JAMES GARNER, Baltimore, Maryland
R. CHARLES GATSON, Kansas City, Missouri
LARRY HAWKINS, Houston, Texas
W. JAMES KING, Cincinnati, Ohio
RUHI MAKER, Rochester, New York
PATRICIA MCCOY, Cambridge, Massachusetts
ELSIE MEEKS, Kyle, South Dakota
BRUCE B. MORGAN, Roeland Park, Kansas
DEBRA S. REYES, Tampa, Florida
BENSON ROBERTS, Washington, District of Columbia
BENJAMIN ROBINSON III, Charlotte, North Carolina
MARY JANE SEEBACH, Calabasas, California
PAUL J. SPRINGMAN, Atlanta, Georgia
FORREST F. STANLEY, Cleveland, Ohio
LORI R. SWANSON, St. Paul, Minnesota
DIANE THOMPSON, East St. Louis, Illinois
HUBERT VAN TOL, Sparta, Wisconsin
CLINT WALKER, Wilmington, Delaware

THRIFT INSTITUTIONS ADVISORY COUNCIL

WILLIAM J. SMALL, Defiance, Ohio, *President*
D. TAD LOWREY, Brea, California, *Vice President*

H. BRENT BEESLEY, St. George, Utah
MICHAEL J. BROWN, SR., Ft. Pierce, Florida
RICHARD J. DRISCOLL, Arlington, Texas
DOUGLAS K. FREEMAN, Alpharetta, Georgia
CURTIS L. HAGE, Sioux Falls, South Dakota
DAVID H. HANCOCK, Grandview, Missouri
OLAN O. JONES, JR., Kingsport, Tennessee
KIRK KORDELESKI, Bethpage, New York
GEORGE W. NISE, Philadelphia, Pennsylvania
ROY M. WHITEHEAD, Seattle Washington

Federal Reserve Board Publications

For ordering assistance, write PUBLICATIONS, MS-127, Board of Governors of the Federal Reserve System, Washington, DC 20551, or telephone (202) 452-3244, or FAX (202) 728-5886. *You may also use the publications order form available on the Board's World Wide Web site* (http://www.federalreserve.gov). *When a charge is indicated, payment should accompany request and be made payable to the Board of Governors of the Federal Reserve System or may be ordered via Mastercard, Visa, or American Express. Payment from foreign residents should be drawn on a U.S. bank.*

BOOKS AND MISCELLANEOUS PUBLICATIONS

THE FEDERAL RESERVE SYSTEM—PURPOSES AND FUNCTIONS. 1994. 157 pp.

ANNUAL REPORT, 2002.

ANNUAL REPORT: BUDGET REVIEW, 2003.

FEDERAL RESERVE BULLETIN. Quarterly. $10.00 per year or $2.50 each in the United States, its possessions, Canada, and Mexico. Elsewhere, $15.00 per year or $3.00 each.

STATISTICAL SUPPLEMENT TO THE FEDERAL RESERVE BULLETIN. Monthly. $25.00 per year or $2.50 each in the United States, its possessions, Canada, and Mexico. Elsewhere, $35.00 per year or $3.50 each.

ANNUAL STATISTICAL DIGEST: period covered, release date, number of pages, and price.

1981	October 1982	239 pp.	$ 6.50
1982	December 1983	266 pp.	$ 7.50
1983	October 1984	264 pp.	$11.50
1984	October 1985	254 pp.	$12.50
1985	October 1986	231 pp.	$15.00
1986	November 1987	288 pp.	$15.00
1987	October 1988	272 pp.	$15.00
1988	November 1989	256 pp.	$25.00
1980–89	March 1991	712 pp.	$25.00
1990	November 1991	185 pp.	$25.00
1991	November 1992	215 pp.	$25.00
1992	December 1993	215 pp.	$25.00
1993	December 1994	281 pp.	$25.00
1994	December 1995	190 pp.	$25.00
1990–95	November 1996	404 pp.	$25.00
1996–2000	March 2002	352 pp.	$25.00

REGULATIONS OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM.

ANNUAL PERCENTAGE RATE TABLES (Truth in Lending—Regulation Z) *Vol. I* (Regular Transactions). 1969. 100 pp. *Vol. II* (Irregular Transactions). 1969. 116 pp. Each volume $5.00.

GUIDE TO THE FLOW OF FUNDS ACCOUNTS. January 2000. 1,186 pp. $20.00 each.

FEDERAL RESERVE REGULATORY SERVICE. Loose-leaf; updated monthly. (Requests must be prepaid.)
- Consumer and Community Affairs Handbook. $75.00 per year.
- Monetary Policy and Reserve Requirements Handbook. $75.00 per year.
- Securities Credit Transactions Handbook. $75.00 per year.
- The Payment System Handbook. $75.00 per year.
- Federal Reserve Regulatory Service. Four vols. (Contains all four Handbooks plus substantial additional material.) $200.00 per year.

Rates for subscribers outside the United States are as follows and include additional air mail costs:
- Federal Reserve Regulatory Service, $250.00 per year.
- Each Handbook, $90.00 per year.

FEDERAL RESERVE REGULATORY SERVICE FOR PERSONAL COMPUTERS. CD-ROM; updated monthly.
- Standalone PC. $300 per year.
- Network, maximum 1 concurrent user. $300 per year.
- Network, maximum 10 concurrent users. $750 per year.
- Network, maximum 50 concurrent users. $2,000 per year.
- Network, maximum 100 concurrent users. $3,000 per year.

Subscribers outside the United States should add $50 to cover additional airmail costs.

THE FEDERAL RESERVE ACT AND OTHER STATUTORY PROVISIONS AFFECTING THE FEDERAL RESERVE SYSTEM, as amended through October 1998. 723 pp. $20.00 each.

THE U.S. ECONOMY IN AN INTERDEPENDENT WORLD: A MULTICOUNTRY MODEL, May 1984. 590 pp. $14.50 each.

INDUSTRIAL PRODUCTION—1986 EDITION. December 1986. 440 pp. $9.00 each.

FINANCIAL FUTURES AND OPTIONS IN THE U.S. ECONOMY. December 1986. 264 pp. $10.00 each.

RISK MEASUREMENT AND SYSTEMIC RISK: PROCEEDINGS OF A JOINT CENTRAL BANK RESEARCH CONFERENCE. 1996. 578 pp. $25.00 each.

EDUCATION PAMPHLETS

Short pamphlets suitable for classroom use. Multiple copies are available without charge.

Consumer Handbook on Adjustable Rate Mortgages (also available in Spanish)

Consumer Handbook to Credit Protection Laws

A Guide to Business Credit for Women, Minorities, and Small Businesses

Series on the Structure of the Federal Reserve System
- The Board of Governors of the Federal Reserve System
- The Federal Open Market Committee
- Federal Reserve Bank Board of Directors
- Federal Reserve Banks

A Consumer's Guide to Mortgage Lock-Ins

A Consumer's Guide to Mortgage Settlement Costs

A Consumer's Guide to Mortgage Refinancings

Home Mortgages: Understanding the Process and Your Right to Fair Lending

How to File a Consumer Complaint about a Bank (also available in Spanish)

In Plain English: Making Sense of the Federal Reserve

Making Sense of Savings

Welcome to the Federal Reserve

When Your Home is on the Line: What You Should Know About Home Equity Lines of Credit (also available in Spanish)

Keys to Vehicle Leasing (also available in Spanish)

Looking for the Best Mortgage (also available in Spanish)

Privacy Choices for Your Personal Financial Information

When Is Your Check Not a Check? (also available in Spanish)

Putting Your Home on the Loan Line Is Risky Business

STAFF STUDIES: Only Summaries Printed in the BULLETIN

Studies and papers on economic and financial subjects that are of general interest. Staff Studies 1–158, 161, 163, 165, 166, 168, and 169 are out of print, but photocopies of them are available. Staff Studies 165–174 are available on line at www.federalreserve.gov/pubs/staffstudies. Requests to obtain single copies of any paper or to be added to the mailing list for the series may be sent to Publications.

159. NEW DATA ON THE PERFORMANCE OF NONBANK SUBSIDIARIES OF BANK HOLDING COMPANIES, by Nellie Liang and Donald Savage. February 1990. 12 pp.
160. BANKING MARKETS AND THE USE OF FINANCIAL SERVICES BY SMALL AND MEDIUM-SIZED BUSINESSES, by Gregory E. Elliehausen and John D. Wolken. September 1990. 35 pp.
162. EVIDENCE ON THE SIZE OF BANKING MARKETS FROM MORTGAGE LOAN RATES IN TWENTY CITIES, by Stephen A. Rhoades. February 1992. 11 pp.
164. THE 1989–92 CREDIT CRUNCH FOR REAL ESTATE, by James T. Fergus and John L. Goodman, Jr. July 1993. 20 pp.
167. A SUMMARY OF MERGER PERFORMANCE STUDIES IN BANKING, 1980–93, AND AN ASSESSMENT OF THE "OPERATING PERFORMANCE" AND "EVENT STUDY" METHODOLOGIES, by Stephen A. Rhoades. July 1994. 37 pp.
170. THE COST OF IMPLEMENTING CONSUMER FINANCIAL REGULATIONS: AN ANALYSIS OF EXPERIENCE WITH THE TRUTH IN SAVINGS ACT, by Gregory Elliehausen and Barbara R. Lowrey. December 1997. 17 pp.
171. THE COST OF BANK REGULATION: A REVIEW OF THE EVIDENCE, by Gregory Elliehausen. April 1998. 35 pp.
172. USING SUBORDINATED DEBT AS AN INSTRUMENT OF MARKET DISCIPLINE, by Study Group on Subordinated Notes and Debentures, Federal Reserve System. December 1999. 69 pp.
173. IMPROVING PUBLIC DISCLOSURE IN BANKING, by Study Group on Disclosure, Federal Reserve System. March 2000. 35 pp.
174. BANK MERGERS AND BANKING STRUCTURE IN THE UNITED STATES, 1980–98, by Stephen Rhoades. August 2000. 33 pp.
175. THE FUTURE OF RETAIL ELECTRONIC PAYMENTS SYSTEMS: INDUSTRY INTERVIEWS AND ANALYSIS, Federal Reserve Staff, for the Payments System Development Committee, Federal Reserve System. December 2002. 27 pp.

ANTICIPATED SCHEDULE OF RELEASE DATES FOR PERIODIC RELEASES OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM (PAYMENT MUST ACCOMPANY REQUESTS)

Release number and title	Annual mail rate	Annual fax rate	Approximate release days[1]	Period or date to which data refer	Corresponding *Bulletin* table numbers[2]
Weekly Releases					
H.2. Actions of the Board: Applications and Reports Received	$55.00	n.a.	Friday	Week ending previous Saturday	. . .
H.3. Aggregate Reserves of Depository Institutions and the Monetary Base[3]	$20.00	n.a.	Thursday	Week ending previous Wednesday	1.20
H.4.1. Factors Affecting Reserve Balances of Depository Institutions and Condition Statement of Federal Reserve Banks[3]	$20.00	n.a.	Thursday	Week ending previous Wednesday	1.11, 1.18
H.6. Money Stock Measures[3]	$35.00	n.a.	Thursday	Week ending Monday of previous week	1.21
H.8. Assets and Liabilities of Commercial Banks in the United States[3]	$30.00	n.a.	Friday	Week ending previous Wednesday	1.26A–F
H.10. Foreign Exchange Rates[3]	$20.00	$20.00	Monday	Week ending previous Friday	3.28
H.15. Selected Interest Rates[3]	$20.00	$20.00	Monday	Week ending previous Friday	1.35
Monthly Releases					
G.5. Foreign Exchange Rates[3]	$ 5.00	$ 5.00	First of month	Previous month	3.28
G.15. Research Library—Recent Acquisitions	No charge	n.a.	First of month	Previous month	. . .
G.17. Industrial Production and Capacity Utilization[3]	$15.00	n.a.	Midmonth	Previous month	2.12, 2.13
G.19. Consumer Credit[3]	$ 5.00	$ 5.00	Fifth working day of month	Second month previous	1.55, 1.56
G.20. Finance Companies[3]	$ 5.00	n.a.	End of month	Second month previous	1.51, 1.52

Release number and title	Annual mail rate	Annual fax rate	Approximate release days[1]	Period or date to which data refer	Corresponding *Bulletin* table numbers[2]
Quarterly Releases					
E.2. Survey of Terms of Business Lending[3]	$ 5.00	n.a.	Midmonth of March, June, September, and December	February, May, August, and November	4.23
E.7. List of Foreign Margin Stocks	No charge	n.a.	March and September	March and September	. . .
E.11. Geographical Distribution of Assets and Liabilities of Major Foreign Branches of U.S. Banks	$ 5.00	n.a.	15th of March, June, September, and December	Previous quarter	. . .
E.15. Agricultural Finance Databook	$ 5.00	n.a.	End of March, June, September, and December	January, April, July, and October	. . .
E.16. Country Exposure Lending Survey[3]	$ 5.00	n.a.	January, April, July, and October	Previous quarter	. . .
Z.1. Flow of Funds Accounts of the United States: Flows and Outstandings[3]	$25.00	n.a.	Second week of March, June, September, and December	Previous quarter	1.57, 1.58, 1.59, 1.60

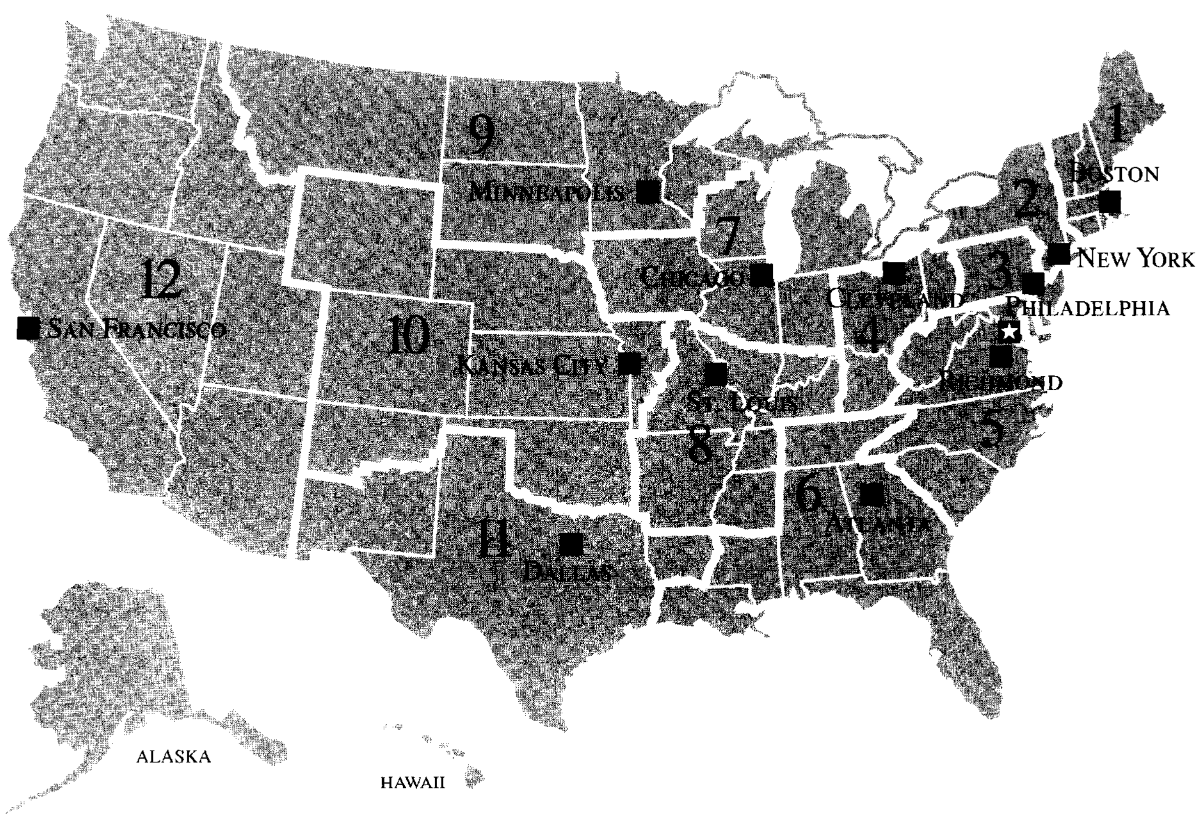
1. Please note that for some releases, there is normally a certain variability in the release date because of reporting or processing procedures. Moreover, for all series unusual circumstances may, from time to time, result in a release date being later than anticipated.

2. The data in some releases are also reported in the *Bulletin* statistical appendix.

3. These releases are also available on the Board's web site, www.federalreserve.gov/releases.

n.a. Not available.

Maps of the Federal Reserve System



Legend

Both pages

■ Federal Reserve Bank city

⧈ Board of Governors of the Federal Reserve System, Washington, D.C.

Facing page

• Federal Reserve Branch city

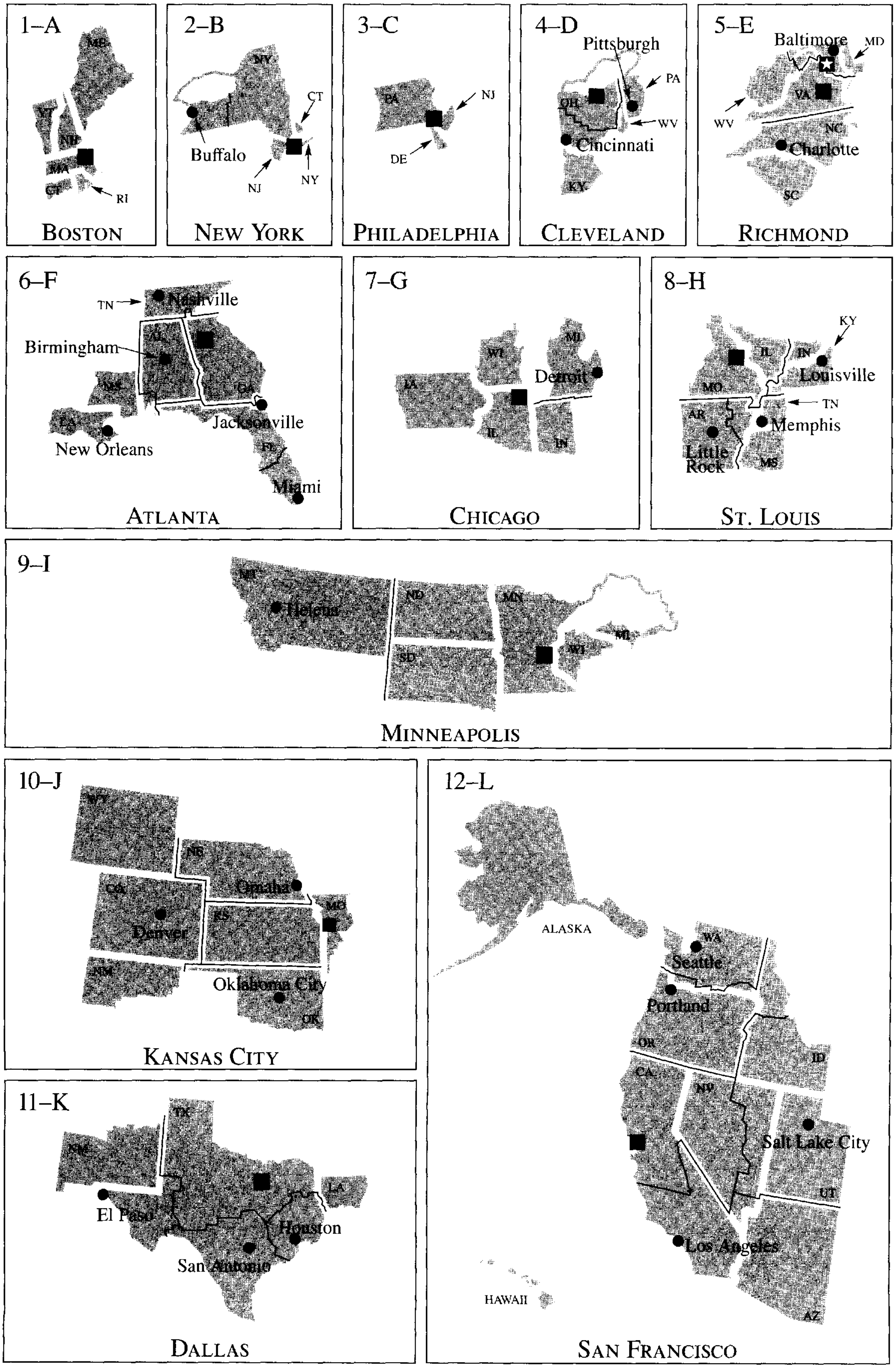
— Branch boundary

Note

The Federal Reserve officially identifies Districts by number and Reserve Bank city (shown on both pages) and by letter (shown on the facing page).

In the 12th District, the Seattle Branch serves Alaska, and the San Francisco Bank serves Hawaii.

The System serves commonwealths and territories as follows: the New York Bank serves the Commonwealth of Puerto Rico and the U.S. Virgin Islands; the San Francisco Bank serves American Samoa, Guam, and the Commonwealth of the Northern Mariana Islands. The Board of Governors revised the branch boundaries of the System most recently in February 1996.


1–A
RI
BOSTON
2–B
CT
Buffalo
NJ
NY
NEW YORK
3–C
NJ
DE
PHILADELPHIA
4–D
Pittsburgh
PA
WV
Cincinnati
CLEVELAND
5–E
Baltimore
MD
WV
Charlotte
RICHMOND
6–F
TN
Nashville
Birmingham
Jacksonville
New Orleans
Miami
ATLANTA
7–G
Detroit
CHICAGO
8–H
KY
Louisville
TN
Memphis
Little Rock
ST. LOUIS
9–I
Helena
MINNEAPOLIS
10–J
Omaha
Denver
Oklahoma City
KANSAS CITY
11–K
El Paso
Houston
San Antonio
DALLAS
12–L
ALASKA
Seattle
Portland
Salt Lake City
Los Angeles
HAWAII
SAN FRANCISCO

Federal Reserve Banks, Branches, and Offices

FEDERAL RESERVE BANK branch, or *facility*	Zip	Chairman / *Deputy Chairman*	President / *First Vice President*	Vice President *in charge of branch*
BOSTON*	02106	Samuel O. Thier	Cathy E. Minehan	
		Blenda J. Wilson	Paul M. Connolly	
NEW YORK*	10045	John E. Sexton	Timothy F. Geithner	
		Jerry I. Speyer	Jamie B. Stewart, Jr.	
Buffalo	14240	Katherine E. Keough		Barbara L. Walter[1]
PHILADELPHIA	19105	Ronald J. Naples	Anthony M. Santomero	
		Doris M. Damm	William H. Stone, Jr.	
CLEVELAND*	44101	Robert W. Mahoney	Sandra Pianalto	
		Charles E. Bunch	Robert Christy Moore	
Cincinnati	45201	Dennis C. Cuneo		Barbara B. Henshaw
Pittsburgh	15230	Roy W. Haley		Robert B. Schaub
RICHMOND*	23219	Wesley S. Williams, Jr.	J. Alfred Broaddus, Jr.	
		Thomas J. Mackell, Jr.	Walter A. Varvel	
Baltimore	21203	Owen E. Herrnstadt		William J. Tignanelli[1]
Charlotte	28230	Michael A. Almond		Jeffrey S. Kane[1]
ATLANTA	30303	David M. Ratcliffe	Jack Guynn	
		V. Larkin Martin	Patrick K. Barron	James M. McKee[1]
Birmingham	35242	Catherine Crenshaw		Lee C. Jones
Jacksonville	32231	Julie Hilton		Christopher L. Oakley
Miami	33152	Rosa Sugranes		James T. Curry III
Nashville	37203	Rodney Lawler		Melvyn K. Purcell[1]
New Orleans	70161	Dave Dennis		Robert J. Musso[1]
CHICAGO*	60690	W. James Farrell	Michael H. Moskow	
		Miles D. White	Gordon R. G. Werkema	
Detroit	48231	Edsel B. Ford II		Glenn Hansen[1]
ST. LOUIS	63166	Walter L. Metcalfe, Jr.	William Poole	
		Gayle P. W. Jackson	W. LeGrande Rives	
Little Rock	72203	Scott T. Ford		Robert A. Hopkins
Louisville	40232	Cornelius A. Martin		Thomas A. Boone
Memphis	38101	Meredith B. Allen		Martha Perine Beard
MINNEAPOLIS	55480	Linda Hall Whitman	Gary H. Stern	
		Frank L. Sims	James M. Lyon	
Helena	59601	Dean Folkvord		Samuel H. Gane
KANSAS CITY	64198	Richard H. Bard	Thomas M. Hoenig	
		Robert A. Funk	Richard K. Rasdall	
Denver	80217	Thomas Williams		Pamela L. Weinstein
Oklahoma City	73125	Patricia B. Fennell		Dwayne E. Boggs
Omaha	68102	A.F. Raimondo		Steven D. Evans
DALLAS	75201	Ray L. Hunt	Robert D. McTeer, Jr.	
		Patricia M. Patterson	Helen E. Holcomb	
El Paso	79999	Ron C. Helm		Robert W. Gilmer[3]
Houston	77252	Lupe Fraga		Robert Smith III[1]
San Antonio	78295	Ron R. Harris		James L. Stull[1]
SAN FRANCISCO	94120	George M. Scalise	Robert T. Parry	
		Sheila D. Harris	John F. Moore	
Los Angeles	90051	William D. Jones		Mark L. Mullinix[2]
Portland	97208	Karla S. Chambers		Richard B. Hornsby
Salt Lake City	84125	H. Roger Boyer		Andrea P. Wolcott
Seattle	98124	Mic R. Dinsmore		Mark Gould

*Additional offices of these Banks are located at Windsor Locks, Connecticut 06096; East Rutherford, New Jersey 07016; Utica at Oriskany, New York 13424; Columbus, Ohio 43216; Columbia, South Carolina 29210; Charleston, West Virginia 25311; Des Moines, Iowa 50306; Indianapolis, Indiana 46204; Milwaukee, Wisconsin 53202; and Peoria, Illinois 61607.

1. Senior vice president
2. Executive vice president
3. Acting

Publications of Interest

FEDERAL RESERVE REGULATORY SERVICE

To promote public understanding of its regulatory functions, the Board publishes the *Federal Reserve Regulatory Service,* a four-volume loose-leaf service containing all Board regulations as well as related statutes, interpretations, policy statements, rulings, and staff opinions. For those with a more specialized interest in the Board's regulations, parts of this service are published separately as handbooks pertaining to monetary policy, securities credit, consumer affairs, and the payment system.

These publications are designed to help those who must frequently refer to the Board's regulatory materials. They are updated monthly, and each contains citation indexes and a subject index.

The Monetary Policy and Reserve Requirements Handbook contains Regulations A, D, and Q, plus related materials.

The Securities Credit Transactions Handbook contains Regulations T, U, and X, dealing with extensions of credit for the purchase of securities, together with related statutes, Board interpretations, rulings, and staff opinions. Also included is the Board's list of foreign margin stocks.

The Consumer and Community Affairs Handbook contains Regulations B, C, E, G, M, P, Z, AA, BB, and DD, and associated materials.

The Payment System Handbook deals with expedited funds availability, check collection, wire transfers, and risk-reduction policy. It includes Regulations CC, J, and EE, related statutes and commentaries, and policy statements on risk reduction in the payment system.

For domestic subscribers, the annual rate is $200 for the *Federal Reserve Regulatory Service* and $75 for each handbook. For subscribers outside the United States, the price including additional air mail costs is $250 for the service and $90 for each handbook.

The *Federal Reserve Regulatory Service* is also available on CD-ROM for use on personal computers. For a standalone PC, the annual subscription fee is $300. For network subscriptions, the annual fee is $300 for 1 concurrent user, $750 for a maximum of 10 concurrent users, $2,000 for a maximum of 50 concurrent users, and $3,000 for a maximum of 100 concurrent users. Subscribers outside the United States should add $50 to cover additional airmail costs. For further information, call (202) 452-3244.

All subscription requests must be accompanied by a check or money order payable to the Board of Governors of the Federal Reserve System. Orders should be addressed to Publications, mail stop 127, Board of Governors of the Federal Reserve System, Washington, DC 20551.

GUIDE TO THE FLOW OF FUNDS ACCOUNTS

A new edition of *Guide to the Flow of Funds Accounts* is now available from the Board of Governors. The new edition incorporates changes to the accounts since the initial edition was published in 1993. Like the earlier publication, it explains the principles underlying the flow of funds accounts and describes how the accounts are constructed. It lists each flow series in the Board's flow of funds publication, "Flow of Funds Accounts of the United States" (the Z.1 quarterly statistical release), and describes how the series is derived from source data. The *Guide* also explains the relationship between the flow of funds accounts and the national income and product accounts and discusses the analytical uses of flow of funds data. The publication can be purchased, for $20.00, from Publications, Mail Stop 127, Board of Governors of the Federal Reserve System, Washington, DC 20551.

Federal Reserve Statistical Releases Available on the Commerce Department's Economic Bulletin Board

The Board of Governors of the Federal Reserve System makes some of its statistical releases available to the public through the U.S. Department of Commerce's economic bulletin board. Computer access to the releases can be obtained by subscription. For further information regarding a subscription to the economic bulletin board, please call (202) 482-1986. The releases transmitted to the economic bulletin board, on a regular basis, are the following:

Reference Number	*Statistical release*	*Frequency of release*
H.3	Aggregate Reserves	Weekly/Thursday
H.4.1	Factors Affecting Reserve Balances	Weekly/Thursday
H.6	Money Stock	Weekly/Thursday
H.8	Assets and Liabilities of Insured Domestically Chartered and Foreign Related Banking Institutions	Weekly/Monday
H.10	Foreign Exchange Rates	Weekly/Monday
H.15	Selected Interest Rates	Weekly/Monday
G.5	Foreign Exchange Rates	Monthly/end of month
G.17	Industrial Production and Capacity Utilization	Monthly/midmonth
G.19	Consumer Installment Credit	Monthly/fifth business day
Z.1	Flow of Funds	Quarterly