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Preface

The *Federal Reserve Bulletin* was introduced in 1914 as a vehicle to present policy issues developed by the Federal Reserve Board. Throughout the years, the *Bulletin* has been viewed as a journal of record, serving to provide the public with data and research results generated by the Board.

Authors from the Board's Research and Statistics, Monetary Affairs, International Finance, Banking Supervision and Regulation, Consumer and Community Affairs, Reserve Bank Operations, and Legal divisions contribute to the content published in the *Bulletin,* which includes topical research and analysis and quarterly "Legal Developments."

Starting in 2004, the *Bulletin* was published quarterly rather than monthly. In 2006, in response to the increased use of the Internet—and in order to release articles and reports in a more timely fashion—the Board discontinued the quarterly print version of the *Bulletin* and began to publish the contents of the *Bulletin* on its public website as the information became available. All articles, orders on banking applications, and enforcement actions that were published in the online *Bulletin* in 2010 are included in this print compilation.

The tables that appeared in the Financial and Business Statistics section of the *Bulletin* from 1914 through 2003 were removed and published monthly as a separate print and online publication, the *Statistical Supplement to the Federal Reserve Bulletin,* from 2004 to 2008. Effective with the publication of the December 2008 issue, the Federal Reserve Board discontinued both the print and online versions.

The majority of data published in the *Statistical Supplement* are available elsewhere on the Federal Reserve Board's website at www.federalreserve.gov. The Board has created a webpage that provides a detailed list of links to the most recent data on its site and links to other data provided by the Federal Reserve Bank of New York, the U.S. Treasury, and the Federal Financial Institutions Examination Council.

Online access to the *Bulletin* is free. A free e-mail notification service (www.federalreserve.gov/generalinfo/subscribe/notification.htm) is available to alert subscribers to the release of articles and orders in the *Bulletin*, as well as press releases, testimonies, and speeches. The notification message provides a brief description and a link to the recent posting.

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Data sources for the tables in the discontinued *Statistical Supplement to the Federal Reserve Bulletin:*
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Articles

May 2010

Profits and Balance Sheet Developments at U.S. Commercial Banks in 2009

Seung Jung Lee and Jonathan D. Rose, of the Board's Division of Monetary Affairs, prepared this article. Thomas C. Allard and Mary E. Chosak assisted in developing the database underlying much of the analysis. Michael Levere and Robert Kurtzman provided research assistance.

The U.S. commercial banking sector remained under significant pressure in 2009. Bank profitability was damped by the effects of the weak economy on asset quality and lending activity, with loan delinquency and charge-off rates rising to historical highs in many cases and banks' balance sheets contracting. Reflecting the weak portfolios and low profitability that weighed on the sector as a whole, 120 smaller banks failed during the year, and the watch list of the Federal Deposit Insurance Corporation (FDIC) expanded to include about 700 institutions by year-end, the highest levels for both of these measures since the early 1990s. By contrast, the acute strains the largest banks faced in late 2008 abated over the first half of 2009, largely because of unprecedented interventions by the Treasury, the Federal Reserve, and the FDIC.

Asset quality worsened for all major loan classes over 2009, but real estate loans backed by residential and by commercial properties remained at the center of banks' credit quality problems. Conditions in the real estate sector generally stayed weak, especially in commercial markets. House prices continued declining sharply in the first half of the year but were more stable in the second half. The stabilization of prices partly reflects stronger demand for housing that was likely spurred in part by low mortgage rates, which were fostered partly by the Federal Reserve's purchases of agency debt and mortgage-backed securities (MBS). A tax credit for first-time homebuyers also helped support housing demand. Still, with many households' mortgage obligations exceeding the value of their houses, 1.4 million properties entered foreclosure over the year.

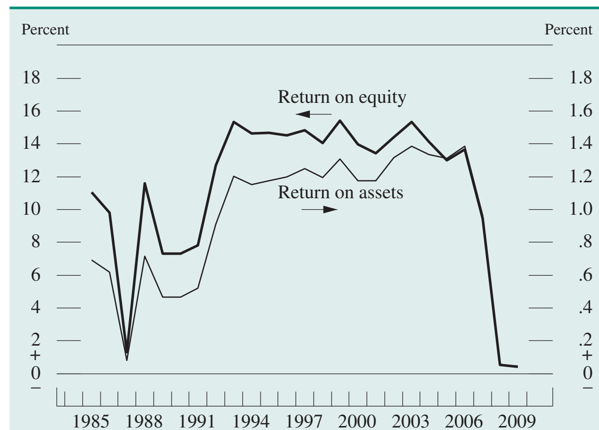
Aggregate economic activity picked up in the second half of the year after several quarters of contraction, stimulated by monetary and fiscal expansions, increased foreign growth, and improvements in financial market conditions. However, as is typical in cyclical economic recoveries, the improvement in labor market conditions lagged the trends in economic activity, and the unemployment rate reached 10 percent at year-end before edging lower. The weakness in labor markets contributed to historically elevated delinquency and charge-off rates on consumer credit card loans. The deterioration in credit quality across all loan categories led to a further rise in already elevated rates of loss provisioning. Consequently, the profitability of the commercial banking industry was depressed, and return on assets (ROA) and return on equity (ROE) were both at their lowest annual levels since at least 1985 (figure 1).[1]

NOTE: The data in this article cover insured domestic commercial banks and nondeposit trust companies (hereafter, banks). Except as otherwise indicated, the data are from the Consolidated Reports of Condition and Income (Call Report). The Call Report consists of two forms submitted by domestic banks to the Federal Financial Institutions Examination Council: FFIEC 031 (for those with domestic and foreign offices) and FFIEC 041 (for those with domestic offices only). The data thus consolidate information from foreign and domestic offices, and they have been adjusted to take account of mergers and the effects of push-down accounting. For additional information on the adjustments to the data, see the appendix in William B. English and William R. Nelson (1998), "Profits and Balance Sheet Developments at U.S. Commercial Banks in 1997," *Federal Reserve Bulletin,* vol. 84 (June), p. 408. Size categories, based on assets at the start of each quarter, are as follows: the 10 largest banks, large banks (those ranked 11 through 100), medium-sized banks (those ranked 101 through 1,000), and small banks (those ranked 1,001 and higher). At the start of the fourth quarter of 2009, the approximate asset sizes of the banks in those groups were as follows: the 10 largest banks, more than $166 billion; large banks, $7.9 billion to $165 billion; medium-sized banks, $527.3 million to $7.9 billion; and small banks, less than $527.3 million.

Data shown in this article may not match data published in earlier years because of revisions and corrections. The data reflect information available as of April 20, 2010, unless noted otherwise. In the tables, components may not sum to totals because of rounding. Appendix tables A.1.A through A.1.E report portfolio composition, interest rates, and income and expense items, all as a percentage of overall average net consolidated assets, for all banks and for banks in each of the four size categories. Appendix table A.2 reports income statement data for all banks.

1. It is worth emphasizing that the analysis in this article is based on Call Reports for commercial banks. For a commercial bank that is a subsidiary of a bank holding company or a financial holding company, the Call Report does not include the assets, liabilities, income, or expenses of the other subsidiaries of the larger organization. Thus, the

1. Bank profitability, 1985–2009



NOTE: The data are annual.
SOURCE: Here and in subsequent figures and tables except as noted, Federal Financial Institutions Examination Council, Consolidated Reports of Condition and Income (Call Report).

Profitability diverged between the largest banking institutions and the rest of the industry, primarily reflecting the ability of large banks to generate income from specialized activities in which other banks do not generally participate. Indeed, large banks, taken together, posted a small profit last year, as trading revenue rebounded to pre-crisis levels with the improvements in capital markets and income from net servicing fees increased. Those revenues managed to offset the pressures on earnings at these banks caused by the further deterioration in credit quality. In addition, large banks experienced a substantial inflow of core deposits at very low interest rates, which improved their net interest margins. In contrast, profits at small and medium-sized banks declined further, weighed down by higher loan losses that were not offset by other forms of revenue.

The commercial banking sector deleveraged over 2009 as banks raised capital and nominal assets posted an annual decline for the first time since 1948. Loans outstanding declined—across all major loan categories, but especially in loans to businesses—consistent with reports of banks' more stringent lending posture and reduced demand for loans from creditworthy borrowers. Borrowers such as households and small businesses with more limited access to nonbank sources of credit were particularly affected by the tight lending conditions.

Demand for bank loans was further held down by the efforts of households and businesses to rebuild their balance sheets. Consumer spending stabilized in the first half of the year and expanded thereafter, reflecting the improvement in financial market prices and accommodative monetary and fiscal policies. However, households financed the increase in consumer outlays primarily out of disposable income. On the business side, commercial real estate (CRE) activity contracted sharply. Businesses' spending on equipment and software picked up in the second half of the year, probably owing in part to improved conditions in the bond market and some increase in sales prospects. Indeed, large reductions in corporate bond spreads spurred robust issuance of both investment- and speculative-grade bonds, and large firms reportedly paid down some bank loans with the proceeds of such bond issues.

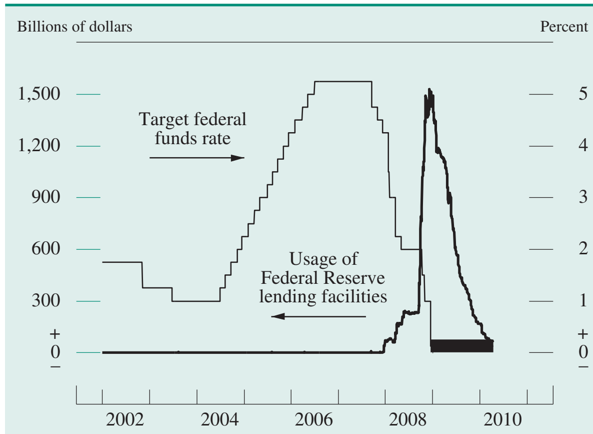
Throughout the year, the Federal Open Market Committee maintained a target range for the federal funds rate of 0 to ¼ percent to foster economic recovery. The Federal Reserve extended through early 2010 most of the special credit and liquidity programs that it had established at the height of the crisis. However, as financial market functioning improved over 2009, these facilities generally declined in size (figure 2), and on February 1, 2010, most expired.[2] The Term Asset-Backed Securities Loan Facility, which was designed to increase credit availability and support economic activity by facilitating renewed issuance of consumer and business asset-backed securities (ABS) at more-normal interest rate spreads, continued operating into 2010. Together, the support provided by all of these programs helped reduce strains in funding markets and bolster liquidity in financial markets more broadly.

To provide support to mortgage lending and housing markets and to improve overall conditions in private credit markets, the Federal Reserve announced large-scale asset purchases of government-sponsored enterprise (GSE) debt and agency MBS in late 2008. In March 2009, those programs were enlarged, and the Federal Reserve also announced a program of purchases of Treasury securities. The Federal Reserve concluded purchasing $1.25 trillion of agency MBS and about $175 billion of agency debt in March 2010,

profits of the commercial banks that are subsidiaries of a larger banking organization may differ substantially from the profits of the consolidated institution.

2. The following programs expired on February 1, 2010: Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility; Commercial Paper Funding Facility; Primary Dealer Credit Facility; Term Securities Lending Facility; Term Securities Lending Facility Options Program; and central bank liquidity swaps, including dollar liquidity swap lines and foreign currency liquidity swap lines. The Money Market Investor Funding Facility separately expired on October 30, 2009. In March 2010, the Federal Reserve completed its final planned auction of funds through the Term Auction Facility.

2. Target federal funds rate and usage of Federal Reserve lending facilities, 2002–10



NOTE: The data are daily and extend through April 14, 2010. On December 16, 2008, the Federal Open Market Committee established a target range for the federal funds rate of 0 to ¼ percent. The black rectangle represents this range. Usage data are the sum of usage amounts for primary, secondary, and seasonal credit; Term Auction Facility; dollar liquidity swaps; Primary Dealer Credit Facility; Commercial Paper Funding Facility; Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility; and Term Asset-Backed Securities Loan Facility.

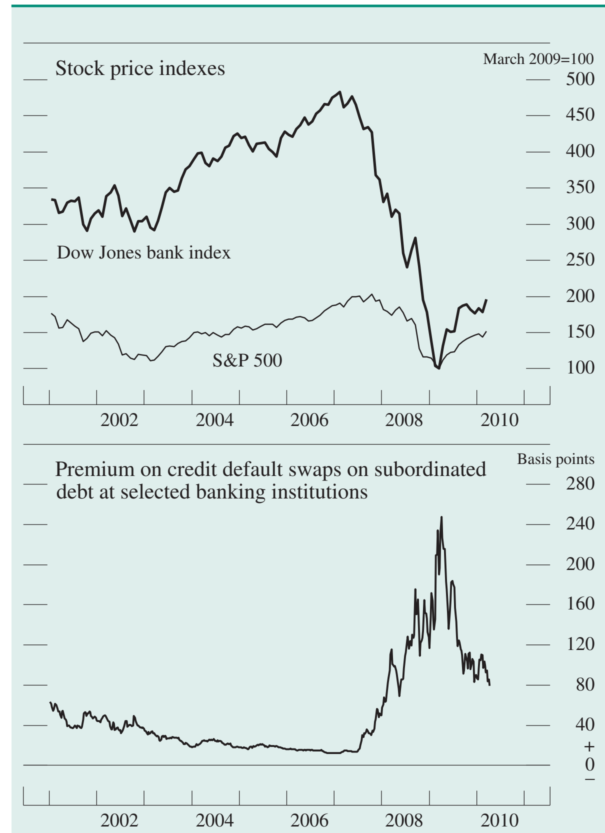
SOURCE: For federal funds rate, Federal Reserve Board (www.federalreserve.gov/fomc/fundsrate.htm); for usage of lending facilities, Federal Reserve Board, Statistical Release H.4.1, “Factors Affecting Reserve Balances” (www.federalreserve.gov/releases/h41).

in addition to the $300 billion of Treasury securities that it purchased between March 2009 and October 2009.

The Treasury provided a large amount of capital to banking institutions under the Troubled Asset Relief Program (TARP), and a substantial volume of that capital was downstreamed by parent holding companies to their commercial bank subsidiaries in the first half of 2009. The Treasury injected capital into financial institutions primarily through the Capital Purchase Program (CPP), under which it acquired shares of preferred stock at the holding company level. In addition, the federal bank regulatory agencies, led by the Federal Reserve, successfully completed the Supervisory Capital Assessment Program (SCAP), which induced several large U.S. banking organizations to raise capital in public equity markets.[3] Subsequently, a number of other larger banks also raised capital in order to repay their CPP funds and increase the share of common equity in their total capital. Meanwhile, aggregate regulatory capital ratios at the commercial bank level reached historical highs by the end of 2009.

The government programs to support and assess the level of capital adequacy augmented the highly accommodative monetary and fiscal policies to help

3. Indicators for the banking industry, 2001–10



NOTE: The stock price index data are monthly and extend through March 2010. The credit default swap (CDS) data are weekly and extend through April 14, 2010; median spread of all available quotes.

SOURCE: For stock price indexes, Standard & Poor’s and Dow Jones; for premium on CDS, Markit.

improve investors’ outlook for the banking industry. The Dow Jones stock price index for banks rebounded sharply beginning in March 2009, as market participants began to mark down the odds of a worsening of the financial crisis, especially after the completion of the SCAP. Indeed, bank stocks have significantly outperformed the broader S&P 500 index since that time despite historically low profitability, though they remain substantially below their pre-crisis levels (figure 3, top panel). Reflecting the decrease in the perceived risks of failure for large banks after the conclusion of the SCAP, credit default swap spreads on banks’ subordinated debt came back to levels last seen in the first half of 2008 (figure 3, bottom panel).

ASSETS

Severe and widespread economic weakness during 2009 impaired the health of both lenders and borrowers and significantly reduced the supply of and demand for bank loans. Consequently, the total assets of all commercial banks contracted 3½ percent in

3. For press releases and documents related to the SCAP, see www.federalreserve.gov/bankinginforeg/scap.htm.

1. Change in balance sheet items, all U.S. banks, 2000–09

Percent

Item	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Memo Dec. 2009 (billions of dollars)
Assets	8.76	5.11	7.19	7.18	10.78	7.73	12.36	10.81	10.22	–3.58	11,772
Interest-earning assets	8.66	3.96	7.53	7.27	11.29	7.97	12.45	10.11	8.31	–2.46	10,108
Loans and leases (net)	9.24	1.82	5.90	6.51	11.21	10.39	11.97	10.57	2.21	–5.96	6,221
Commercial and industrial	8.54	–6.73	–7.41	–4.56	4.35	12.53	11.81	20.27	3.48	–18.42	1,149
Real estate	10.74	7.94	14.44	9.75	15.41	13.80	14.94	7.04	4.48	–.44	3,780
Booked in domestic offices	11.02	8.02	14.85	9.66	15.09	13.93	15.05	6.77	4.75	–.42	3,719
One- to four-family residential	9.28	5.70	19.86	10.01	15.75	11.95	15.11	5.53	3.07	3.17	2,121
Other real estate	13.31	10.95	8.81	9.19	14.20	16.61	14.96	8.39	6.89	–4.82	1,597
Booked in foreign offices	–1.62	3.97	–7.41	15.74	35.59	7.19	8.79	22.76	–9.28	–1.72	62
Consumer	8.04	4.16	6.55	9.31	10.16	2.30	6.19	11.67	4.23	–1.95	969
Other loans and leases	7.01	–2.02	–.03	8.31	3.57	–.18	3.17	13.01	–6.41	–7.32	537
Loan loss reserves and unearned income	7.98	13.15	5.73	–3.41	–3.72	–5.55	1.69	27.98	75.28	35.73	214
Securities	6.36	7.22	16.20	9.44	10.58	2.40	11.53	4.54	–.53	21.24	2,646
Investment account	2.85	8.88	13.53	8.70	6.15	1.19	6.94	–4.42	10.07	26.66	2,177
U.S. Treasury	–32.72	–40.27	41.92	14.14	–15.87	–17.59	–19.30	–26.93	7.96	215.48	100
U.S. government agency and corporation obligations	3.75	12.84	18.09	9.68	9.46	–1.83	4.71	–12.15	15.44	15.49	1,190
Other	13.39	12.18	2.72	5.98	3.02	10.12	13.78	10.75	2.66	35.05	887
Trading account	37.16	–3.72	36.12	14.01	36.81	7.96	31.32	35.98	–26.69	1.17	469
Other	10.30	13.09	–2.93	6.76	14.25	5.81	19.31	22.35	73.68	–20.71	1,241
Noninterest-earning assets	9.45	12.74	5.11	6.64	7.61	6.19	11.79	15.42	22.30	–9.89	1,664
Liabilities	8.59	4.45	7.13	7.24	9.56	7.74	12.10	10.79	11.27	–5.46	10,458
Core deposits	7.53	10.55	7.58	7.29	8.25	6.40	5.84	5.49	14.51	8.07	5,843
Transaction deposits	–1.31	10.20	–5.12	2.82	3.20	–1.18	–4.28	–1.22	20.72	6.34	892
Savings deposits (including MMDAs)	12.51	20.68	18.46	13.71	11.72	6.93	5.53	3.34	9.98	17.78	3,879
Small time deposits	7.20	–7.23	–4.92	–6.79	1.58	12.88	16.97	18.03	23.48	–15.88	1,072
Managed liabilities[1]	8.79	–2.73	5.34	6.96	12.06	12.24	19.45	16.57	6.45	–16.61	4,038
Large time deposits	19.37	–3.65	5.05	1.42	21.86	22.88	15.94	1.90	4.56	–16.15	897
Deposits booked in foreign offices	7.84	–10.96	4.49	12.63	16.84	6.32	29.67	25.86	2.46	–.60	1,529
Subordinated notes and debentures	13.98	9.56	–.59	5.08	10.49	11.41	22.60	16.83	4.60	–15.53	154
Gross federal funds purchased and RPs	6.49	5.72	12.75	–8.70	8.40	15.62	9.47	7.06	5.76	–31.70	537
Other managed liabilities	1.80	–.28	.97	22.00	1.37	6.15	18.89	28.44	14.38	–27.25	921
Revaluation losses held in trading accounts	7.47	–17.06	33.44	14.03	–12.61	–17.86	6.89	42.66	88.60	–57.17	166
Other	20.61	14.90	5.23	5.28	17.19	–1.60	22.33	3.21	–8.63	–3.31	410
Capital account	10.65	12.29	7.84	6.61	23.14	7.59	14.69	10.94	.96	14.54	1,314
Memo											
Commercial real estate loans[2]	12.16	13.10	6.82	8.99	13.93	16.87	14.91	9.21	6.74	–5.69	1,588
Mortgage-backed securities	3.29	29.05	15.54	10.12	13.45	2.06	10.22	–1.24	11.37	11.54	1,192
Federal Home Loan Bank advances	n.a.	n.a.	17.21	3.71	3.73	10.00	29.80	30.62	17.51	–24.87	402

Note: Data are from year-end to year-end and are as of March 23, 2010.

1. Measured as the sum of large time deposits in domestic offices, deposits booked in foreign offices, subordinated notes and debentures, federal funds purchased and securities sold under repurchase agreements, Federal Home Loan Bank advances, and other borrowed money.

2. Measured as the sum of construction and land development loans secured by real estate; real estate loans secured by nonfarm nonresidential properties or by multifamily residential properties; and loans to finance commercial real estate, construction, and land development activities not secured by real estate.

n.a. Not available.

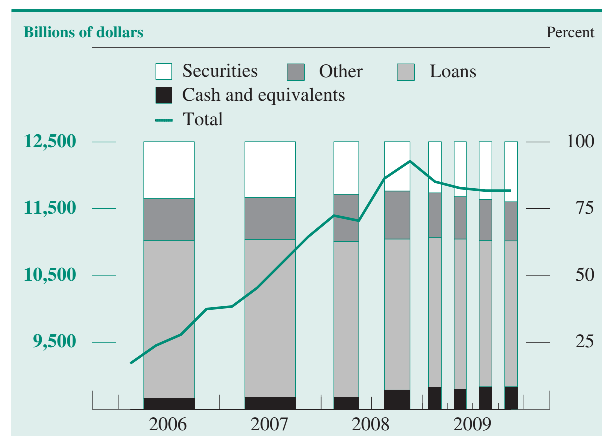
MMDA Money market deposit account.

RP Repurchase agreement.

2009, the first annual contraction since 1948 (table 1 and figure 4). However, the decline in banks' assets last year was even larger—about 5¼ percent—after accounting for the acquisition of several nonbanks by commercial banks (see box "Adjustments to the Balance Sheet Data for Structure Activity in 2009"). The share of industry assets in the top 100 banks fell slightly, the first annual decline since 1991 (see box "Bank Failures and Measures of Banking Concentration in 2009").

The decline in assets on banks' books reflected in large part a fall in gross loans of about 5 percent, or 7 percent when adjusted for structure activity. Relative to 2008, on an adjusted basis, loan declines in 2009 spread from closed-end residential real estate loans to all major loan classes, as the economic contraction encompassed the consumer, business, and

4. Composition of assets at commercial banks, 2006–09



Note: Other assets consist of loans to banks, trading assets (excluding securities), and other assets not elsewhere classified.

Adjustments to the Balance Sheet Data for Structure Activity in 2009

One consequence of the turmoil in financial markets over the past two years has been a steady stream of acquisitions and reorganizations by major financial institutions. Several large thrift institutions that were acquired by bank holding companies in 2008 were consolidated into the commercial bank subsidiaries of those institutions during 2009, boosting assets on banks' books.[1] In addition to these bank–nonbank structure events, a large credit card bank completed balance sheet consolidation of its securitized assets in the fourth quarter of 2009 under the new accounting requirements established by Statements of Financial Accounting Standards Nos. 166 and 167; similar events will boost assets on many banks' books in the first quarter of 2010.

In general, the effects of these structure activities on bank balance sheet data do not reflect net asset creation or elimination. To better capture net asset changes, the data shown in table A have been adjusted to remove the effects on the data series that have resulted from these structure events. The growth rates of selected balance sheet components given in the table have been adjusted to remove the estimated effects of the following events that occurred over 2009, as well as the five major structure events that were detailed in the *Federal Reserve Bulletin* article about the 2008 developments:[2]

- Bank of America, N.A., consolidated the assets and liabilities of Countrywide Bank, F.S.B., on April 27, 2009, boosting industry assets by about $115 billion.
- Commercial bank subsidiaries of Wells Fargo & Company consolidated the assets and liabilities of Wachovia Mortgage, F.S.B., and Wachovia Bank, F.S.B., on November 1, 2009, boosting industry assets by about $85 billion.
- Bank of America, N.A., consolidated the assets and liabilities of Merrill Lynch Bank and Trust Co., F.S.B., on November 2, 2009, boosting industry assets by about $40 billion.
- A large credit card bank consolidated securitized credit card loans onto its balance sheet as of the December 2009 Consolidated Reports of Condition and Income (Call Report), boosting industry assets by about $25 billion.[3]

These four events resulted in the net addition of more than $265 billion of nonbank assets to commercial banks' balance sheets last year, bringing the total since 2006 to nine major events and $847 billion. As a consequence, the adjusted growth rates shown in table A are generally lower than the unadjusted growth rates shown in table 1 of the main text. Notably, after accounting for the consolidation of assets from Countrywide and Wachovia, the growth of residential real estate loans in the second and fourth quarters was markedly lower, more clearly reflecting the weakness in most residential real estate markets over that period. Overall, the adjusted data on growth in total loans show that, after adjusting for major structure events, bank lending steadily contracted in each quarter of 2009.

1. In publishing its H.8 statistical release, "Assets and Liabilities of Commercial Banks in the United States," each week, the Federal Reserve describes nonbank structure activity that affects bank assets by $5.0 billion or more. For a list of such activity dating to December 16, 2005, see the H.8 "Notes on the Data" webpage (www.federalreserve.gov/releases/h8/h8notes.htm). In addition, information about structure activity involving any banking organization is available in the Federal Financial Institutions Examination Council's central repository of data, the National Information Center (www.ffiec.gov/nicpubweb/nicweb/nichome.aspx).

2. See box "Adjustments to the Balance Sheet Data for Structure Activity" in Morten L. Bech and Tara Rice (2009), "Profits and Balance Sheet Developments at U.S. Commercial Banks in 2008," *Federal Reserve Bulletin,* vol. 95 (June), pp. A62–A63, www.federalreserve.gov/pubs/bulletin/2009/pdf/bankprofits09.pdf. The structure-adjusted growth rates shown in the table were generally based on the difference between the end-of-period reported data and the beginning-of-period data adjusted for the structure event. To adjust for Bank of America, N.A., in 2009:Q2 and 2009:Q4, and the bank subsidiaries of Wells Fargo & Company in 2009:Q4, the beginning-of-period values were determined by adding the value of the assets of the acquired thrift(s) to the reported data for the previous quarter. Similarly, to adjust for the large credit card bank in 2009:Q4, the beginning-of-period values were determined by adding the value of the securitized loans to the reported data for the previous quarter.

3. See note 11 of the main text.

A. Structure-adjusted change in selected balance sheet items, all U.S. banks, 2007–09

Percent, annual rate

Balance sheet category	2008				2009				2007	2008	2009
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Assets	12.38	–1.21	8.92	3.51	–8.49	–5.64	–3.56	–3.51	11.38	6.10	–5.15
Loans and leases (gross)	5.05	–.70	.40	–6.64	–4.08	–6.27	–11.73	–6.49	11.39	–.43	–6.93
Commercial and industrial	9.49	2.19	7.14	–6.19	–16.32	–18.47	–25.44	–20.34	20.28	3.23	–18.62
Consumer	9.27	7.76	–.23	–4.18	–3.21	–2.39	–5.55	–6.19	11.67	3.10	–4.35
One- to four-family residential	–4.36	–10.36	–4.10	–4.90	2.05	–5.01	–9.56	5.29	7.30	–5.83	–1.78
Commercial real estate loans[1]	5.95	4.97	4.17	.61	–.41	–4.37	–7.83	–11.79	9.17	3.98	–5.97
Other loans and leases	9.29	1.86	10.60	–10.49	–3.00	–2.34	–5.77	–10.74	10.06	2.77	–5.37
Securities	.30	–3.33	13.36	–19.15	11.97	24.18	22.81	16.17	5.31	–2.49	19.98
Mortgage-backed securities	10.74	11.50	2.44	12.60	2.59	13.17	12.67	12.06	.43	9.39	10.51
Liabilities	13.30	–1.20	10.88	4.26	–11.61	–7.17	–5.11	–4.25	11.41	7.07	–6.81
Capital account	4.33	.46	–7.44	–5.59	21.94	10.11	9.25	8.06	11.16	–2.07	12.88
MEMO											
Unused loan commitments	.21	–5.88	–16.43	–31.87	–29.30	–24.90	–16.08	–8.94	9.50	–12.98	–18.46
Federal Home Loan Bank advances	15.96	5.22	52.64	–50.30	–49.47	–43.31	–43.92	–22.20	35.61	4.83	–34.07

NOTE: Data are from period-end to period-end and are as of April 15, 2010, for both commercial banks and thrift institutions. For a discussion of the structure adjustments, see the box text; for an explanation of the adjustment calculation, see note 2 of the box text.

1. Measured as the sum of construction and land development loans secured by real estate; real estate loans secured by nonfarm nonresidential properties or by multifamily residential properties; and loans to finance commercial real estate, construction, and land development activities not secured by real estate.

SOURCE: Federal Financial Institutions Examination Council, Consolidated Reports of Condition and Income (Call Report) for commercial banks and thrift institutions; staff calculations.

Bank Failures and Measures of Banking Concentration in 2009

Among the major developments in the commercial banking sector in 2009 were the failure of 120 banks with $117.9 billion in assets (figure A). Since the middle of 2007, the health of the commercial banking sector has been adversely affected by the economic downturn and disruptions to financial markets caused by the financial crisis. The number of problem institutions, as identified by the Federal Deposit Insurance Corporation (FDIC), increased greatly throughout 2009 and reached about 700 institutions by year-end, up from about 250 a year earlier.[1]

The FDIC sold most of the $117.9 billion in assets at the 120 failed banks to other surviving banks. However, given the uncertain quality of some of the seized assets, in many instances the FDIC entered loss-sharing agreements with the purchasers of disposed assets, and in some cases it retained assets for future liquidation.

Very few new commercial banks were chartered during 2009. Merger activity among commercial banks slowed a bit again, and roughly two-fifths of all mergers involved a failed bank. Together, these structural developments caused the number of banks to continue declining over the year, to about 6,900 at year-end 2009 from about 7,100 at year-end 2008 (figure B, top panel).

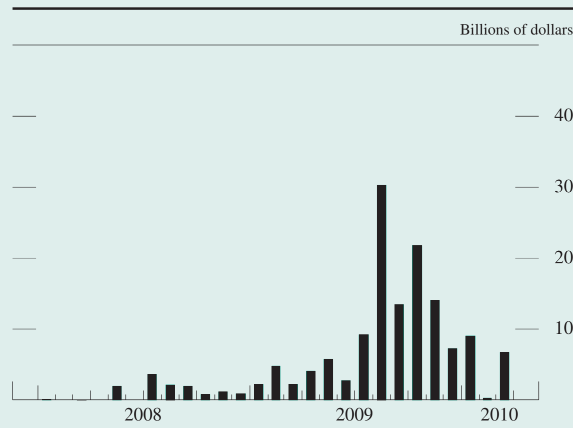
Concentration in the banking industry was little changed over 2009 after many years of steady increases. The share of assets held by the 10 largest banks increased only slightly, to just under 54½ percent at the end of 2009, even with the consolidation of assets from acquired thrifts onto the balance sheets of the largest banks (figure B, bottom panel). The share of assets held by the top 100 banks declined a bit over the year to 81½ percent, the first annual decline since 1991.

The number of bank holding companies (BHCs) fell at about the same pace as in recent years to about 5,000 at the end of 2009 (for multitiered BHCs, only the top-tier organization is counted in these figures). While merger activity among BHCs slowed compared with the past two years, the number of newly formed BHCs decreased for the second consecutive year, and a number of BHCs exited because of the failures of their subsidiary banks. The number of financial holding companies also declined slightly, mainly as a result of mergers and decertifications of financial holding company status.[2]

1. This total includes depository institutions insured by the FDIC that are not commercial banks. See Federal Deposit Insurance Corporation (2009), *Quarterly Banking Profile* (Washington: FDIC, December 31), available at www2.fdic.gov/QBP/qbpSelect.asp?menuItem=QBP.

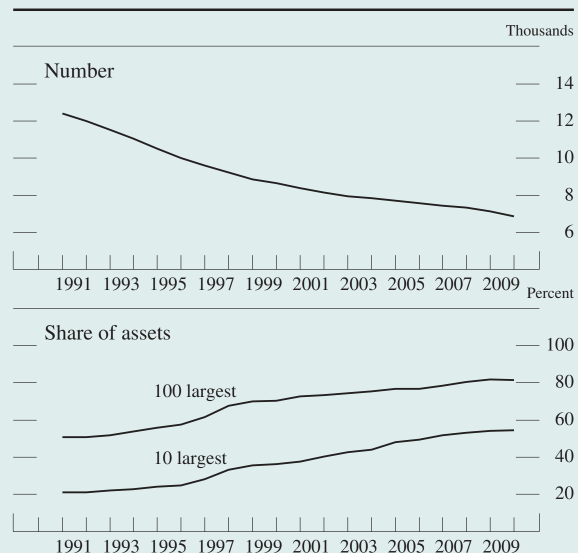
2. Statistics on financial holding companies include both domestic BHCs that have elected to become financial holding companies and foreign banking organizations operating in the United States as financial holding companies and subject to the Bank Holding Company Act. For more information, see Board of Governors of the Federal Reserve System and U.S. Department of the Treasury (2003), *Report to the Congress on Financial Holding Companies under the Gramm-Leach-Bliley Act* (Washington: Board of Governors and Department of the Treasury, November), available at www.federalreserve.gov/pubs/reports_other.htm.

A. Assets at failed commercial banks, 2008–10



NOTE: The data are monthly and extend through March 2010. Assets are as of the fail date.
SOURCE: Federal Deposit Insurance Corporation via SNL Financial.

B. Number of banks, and share of assets at the largest banks, 1990–2009



NOTE: The data are as of year-end. For the definition of bank size, see the general note on the first page of the main text.

real estate sectors. The runoff in loans involved a number of related factors. With less need for external financing and the uncertain economic outlook, demand from businesses for bank-intermediated credit declined broadly. Household loan demand similarly dropped as consumers began deleveraging their balance sheets, in part to adjust to the declines in the values of their homes and equity holdings. Weak balance sheets of both businesses and households likely also reduced the number of creditworthy borrowers. In addition, banks tightened their lending policies substantially over 2008 and 2009, partly in response to a less favorable or more uncertain economic outlook. Reportedly, banks were also responding to a range of other factors, including the poor quality of assets on their balance sheets, the adverse implications of that situation for their own capital, and disruptions in securitization markets.

The credit quality of existing loans in all major classes continued to deteriorate significantly, on balance, over the year, resulting in historically high charge-off rates. Banks' overall loan delinquency rate (that is, the proportion of loans whose payments are 30 days or more past due or not accruing interest) rose to 7¼ percent at year-end, the highest level posted since at least 1985. Credit quality deteriorated most sharply for real estate loans. For 2009 as a whole, banks cumulatively charged off 2½ percent of the loans that were outstanding at year-end 2008, directly contributing to the decline in loans outstanding.

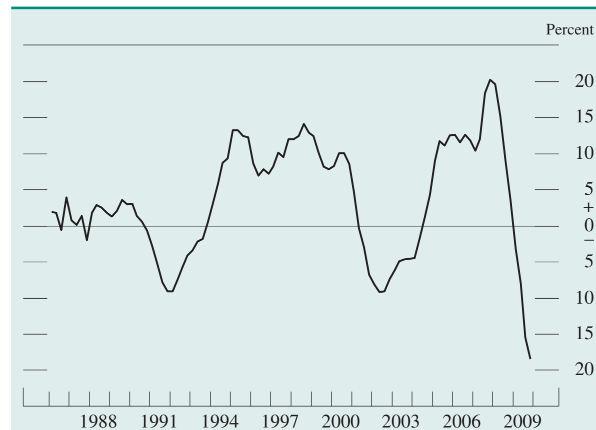
In contrast to the drop in loans, banks' holdings of securities expanded about 20 percent over 2009 (adjusted for structure activity), with growth particularly strong in holdings of Treasury securities and agency debt securities (excluding MBS). In addition, as the Federal Reserve ramped up its purchases of Treasury and agency securities over the course of the year, reserve balances grew as a share of banks' total assets. Indeed, at the end of 2009, such balances accounted for 5 percent of banks' total assets; reserve balances had accounted for just ¼ percent of assets before the financial turmoil of the fall of 2008.

Business Loans

Commercial and industrial (C&I) loans on banks' books plummeted 18½ percent in 2009, the steepest annual decline since at least 1985, and the pace of contraction gained momentum over the year (figure 5).

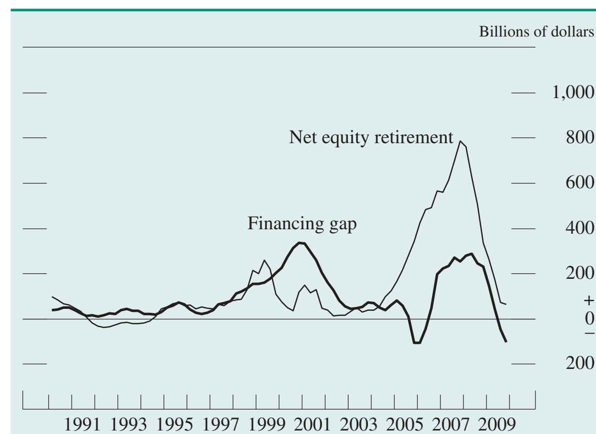
Demand for C&I loans decreased as nonfinancial firms' need for external finance dropped off. The financing gap at nonfinancial corporations—the difference between capital expenditures and internally generated funds—fell sharply in the second half of 2009 and ended the year below zero (figure 6). Anecdotal reports associated with the weekly data collected by the Federal Reserve indicate that originations of large loans were sparse last year, and there were broad-based paydowns of existing C&I loans across banks and industries. The contraction in C&I loans was especially steep at large banks last year, which is consistent with reports that some large firms with access to capital markets paid down bank loans with the proceeds of bond issues. Indeed, bond issuance was robust after the first quarter amid increasingly attractive conditions in the corporate

5. Change in commercial and industrial loans, 1986–2009



Note: The data are quarterly; changes are from four quarters earlier.

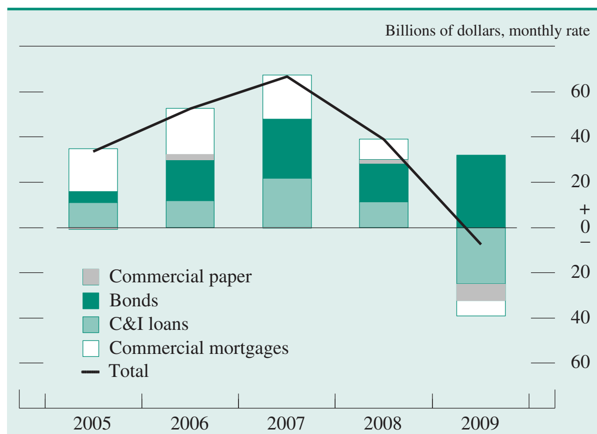
6. Financing gap and net equity retirement at nonfarm nonfinancial corporations, 1990–2009



Note: The data are four-quarter moving averages. The financing gap is the difference between capital expenditures and internally generated funds. Net equity retirement consists of funds used to repurchase equity less funds raised in equity markets.

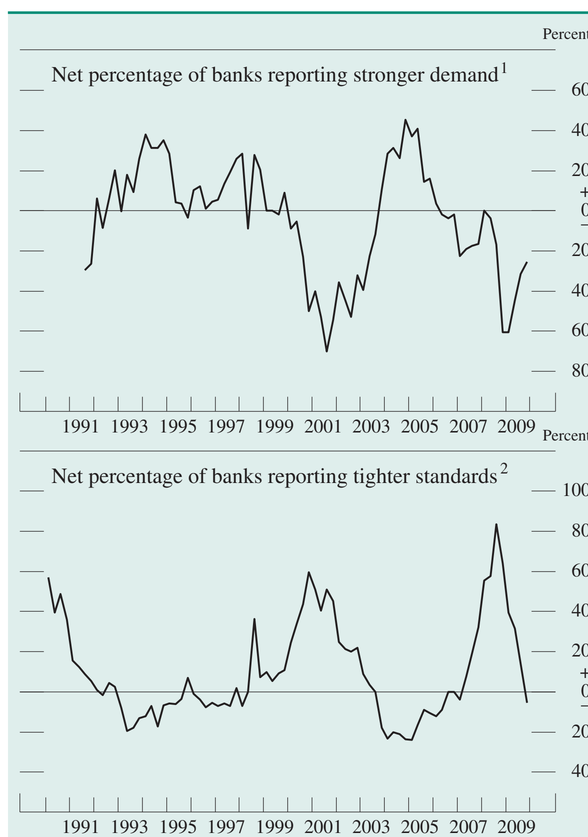
Source: Federal Reserve Board, Statistical Release Z.1, "Flow of Funds Accounts of the United States," table F.102 (www.federalreserve.gov/releases/z1).

7. Selected components of net financing for nonfinancial businesses, 2005–09



NOTE: C&I is commercial and industrial.
SOURCE: Federal Reserve Board, Statistical Release Z.1, "Flow of Funds Accounts of the United States" (www.federalreserve.gov/releases/z1).

8. Changes in demand and supply conditions at selected banks for commercial and industrial loans to large and middle-market firms, 1990–2009



NOTE: The data are drawn from a survey generally conducted four times per year; the last observation is from the January 2010 survey, which covers 2009:Q4. Net percentage is the percentage of banks reporting an increase in demand or a tightening of standards less, in each case, the percentage reporting the opposite. The definition for firm size suggested for, and generally used by, survey respondents is that large and middle-market firms have annual sales of $50 million or more.
1. Series begins with the November 1991 survey.
2. Series begins with the May 1990 survey.
SOURCE: Federal Reserve Board, Senior Loan Officer Opinion Survey on Bank Lending Practices (www.federalreserve.gov/boarddocs/snloansurvey).

bond market (figure 7). Overall, according to domestic banks responding to the Federal Reserve's Senior Loan Officer Opinion Survey on Bank Lending Practices (SLOOS), the most important factors explaining the decline in C&I loans last year were lower loan demand from creditworthy borrowers and a deterioration in the credit quality of potential borrowers.

On the supply side, results from the SLOOS indicated that unprecedented fractions of banks tightened standards and a wide range of terms on C&I loans through the first half of 2009 (figure 8). Results from the Federal Reserve's quarterly Survey of Terms of Business Lending also pointed to a tightening in credit conditions, indicating that the spreads of C&I loan rates over banks' cost of funds increased sharply last year. Even after adjusting for changes in the riskiness of loans and other nonprice loan characteristics, significant increases in C&I loan rate spreads were reported on loans of all sizes and on loans originated by both large and small banks.

A number of developments contributed importantly to last year's decline in C&I loans. As financial market conditions improved in 2009, the drop in C&I loans may have been exacerbated by repayments of draws on existing credit lines; firms had reportedly drawn heavily on these lines for precautionary liquidity during the extreme disruptions in credit markets in the fall of 2008. In addition, strained conditions in the syndicated loan market may also have contributed to the sharp decline in C&I loans at large banks, as banks, to complete syndicated deals, had relied heavily on some types of structured vehicles that have not regained acceptance by investors. In the leveraged segment of the C&I loan market, issuance was weak through most of last year despite consistent improvement in loan prices and trading liquidity in the secondary market for such loans. In the fourth quarter, however, issuance of syndicated leveraged loans picked up somewhat, and the terms on such loans reportedly eased a bit.

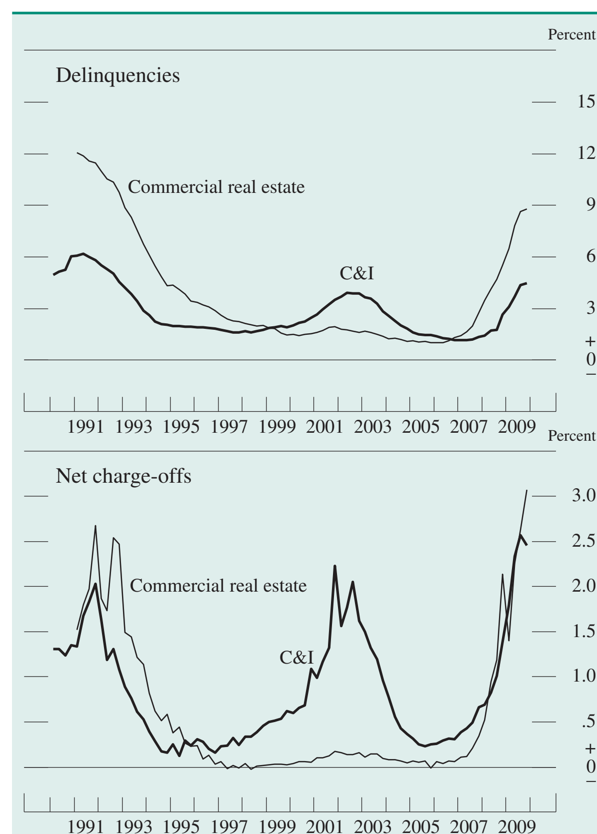
Policymakers have expressed concern about the difficulties that creditworthy business borrowers without access to capital markets—typically small businesses—are experiencing in obtaining credit in the current lending environment. Gauging the degree to which small businesses' access to credit has tightened is difficult, as only sparse and imperfect measures of small business lending by banks are avail-

able.[4] A survey by the National Federation of Independent Business found that slightly larger net fractions of small businesses in 2009 reported that they faced tightening credit conditions than had so reported during the period of banking strains in the early 1990s, and that approval rates for business owners attempting to borrow were significantly lower than in the mid-2000s. That said, only 8 percent of surveyed business owners indicated that access to credit was their principal economic problem, with slow sales and an uncertain economic situation being more commonly cited.[5] In part, the tight credit conditions reported by small businesses may reflect the reduced credit quality of such firms. Banks reported in the SLOOS that delinquency rates in the fourth quarter were higher for C&I loans to small businesses than for such loans to larger businesses, and more banks expected improvement over 2010 in the credit quality of C&I loans to larger firms than of C&I loans to smaller firms.

Federal and state regulators issued guidance in February 2010 stating that banks should strive to make prudent loans to creditworthy small businesses, and the regulators directed examiners to conduct their reviews in a way that would not discourage such activities.[6] In addition, the availability of loans to small businesses was supported by the Term Asset-Backed Securities Loan Facility, which helped revitalize the market for securities guaranteed by the Small Business Administration.

Delinquency and charge-off rates on C&I loans increased through 2009, and while these rates were not as high as those in other loan categories, their levels at year-end were roughly comparable with those from the early 1990s (figure 9). Most SLOOS respondents indicated that they expected the credit quality of C&I loans to stabilize or improve in 2010, although banks' outlook regarding credit quality was more sanguine for loans to larger businesses than for loans to smaller businesses. In addition, some signs of stabilization in C&I loan quality were apparent in the fourth quarter of 2009, as the delinquency rate on C&I loans increased only slightly further and the charge-off rate declined a bit.

9. Delinquency and charge-off rates for loans to businesses, by type of loan, 1990–2009



NOTE: The data are quarterly and seasonally adjusted; the data for commercial real estate begin in 1991. Delinquent loans are loans that are not accruing interest and those that are accruing interest but are more than 30 days past due. The delinquency rate is the end-of-period level of delinquent loans divided by the end-of-period level of outstanding loans. The net charge-off rate is the annualized amount of charge-offs over the period, net of recoveries, divided by the average level of outstanding loans over the period. For the computation of these rates, commercial real estate loans exclude loans not secured by real estate (see table 1, note 2). C&I is commercial and industrial.

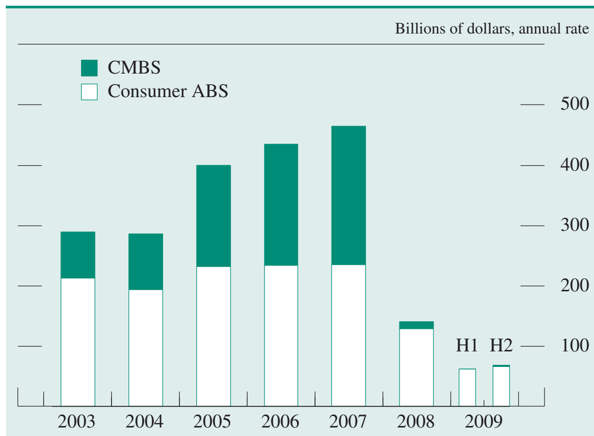
The fundamentals of CRE were poor in 2009, with prices of commercial properties dropping, rents declining, and vacancy rates rising. Financing conditions for CRE were strained over the year: Almost no issuance of commercial mortgage-backed securities occurred (figure 10), and large net fractions of banks reported tighter standards for CRE loans in the SLOOS (figure 11). The pace of the runoff in CRE loans increased over the year, while delinquency and

4. For example, each year the second-quarter Call Report records the amount of C&I loans outstanding that were made originally in small amounts; these amounts are often used as a proxy for small business lending but also may capture other lending, such as business credit card loans and loans to large firms that were issued by multiple banks. In addition, realized flows of credit generally reflect both demand and supply conditions, and so a fall in loans may not necessarily be due to supply factors. With those caveats, small C&I loans at banks declined about 4½ percent from the second quarter of 2008 to the second quarter of 2009, while all other C&I loans declined about 9 percent.

5. William J. Dennis, Jr. (2010), *Small Business Credit in a Deep Recession* (Washington: NFIB Research Foundation, February).

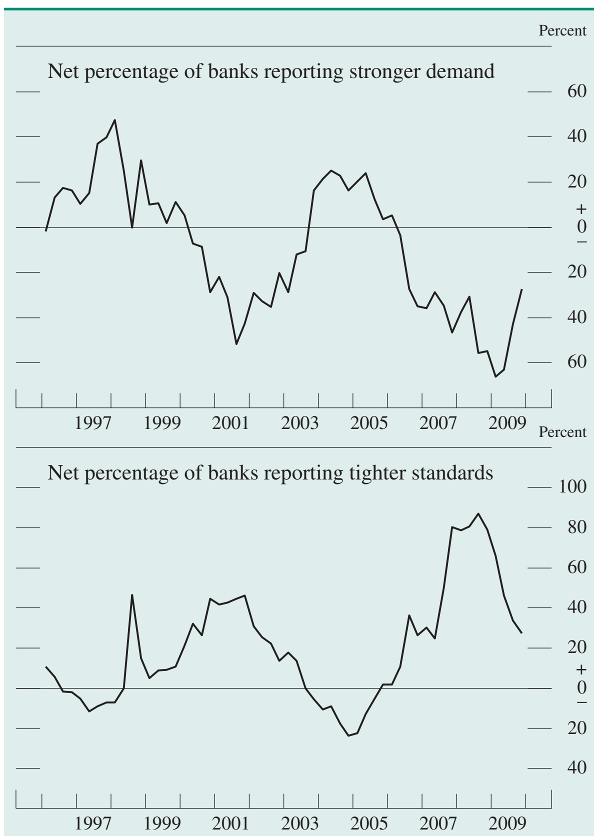
6. See *Interagency Statement on Meeting the Credit Needs of Creditworthy Small Business Borrowers,* an attachment to Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, National Credit Union Administration, Office of the Comptroller of the Currency, Office of Thrift Supervision, and Conference of State Bank Supervisors (2010), "Regulators Issue Statement on Lending to Creditworthy Small Businesses," joint press release, February 5, www.federalreserve.gov/newsevents/press/bcreg/20100205a.htm.

10. Gross issuance of selected mortgage- and asset-backed securities, 2003–09



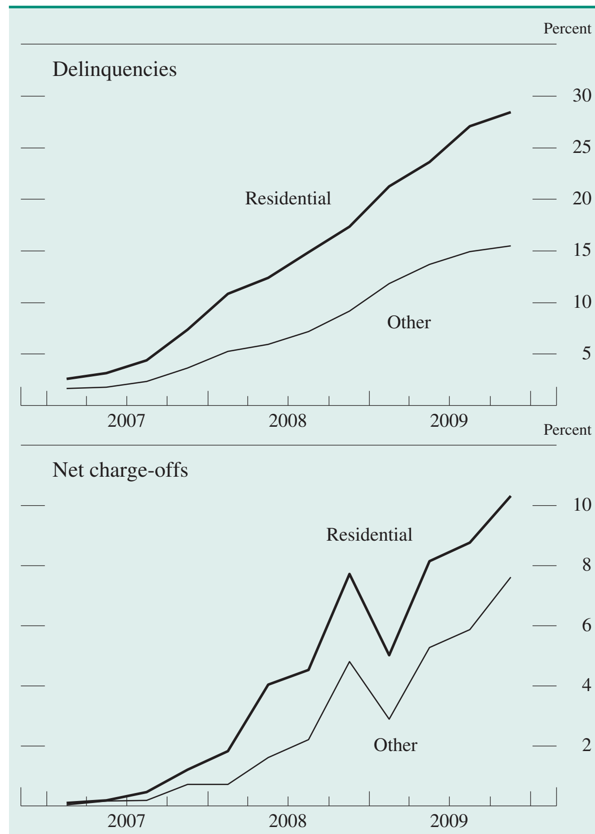
NOTE: CMBS are commercial mortgage-backed securities; consumer ABS (asset-backed securities) are securities backed by credit card loans, nonrevolving consumer loans, and auto loans.
SOURCE: For CMBS, Commercial Mortgage Alert; for ABS, *Inside MBS & ABS* and Merrill Lynch.

11. Changes in demand and supply conditions at selected banks for commercial real estate loans, 1996–2009



NOTE: See figure 8, general note and source note.

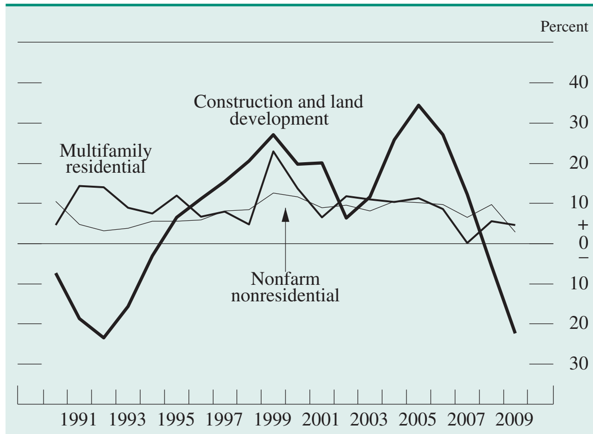
12. Delinquency and charge-off rates for construction and land development loans, by type of loan, 2007–09



NOTE: The data are quarterly and are available since the series began in 2007:Q1. For definitions of delinquencies and net charge-offs, see the note for figure 9. Other consists of other construction loans and all other land development and other land loans.

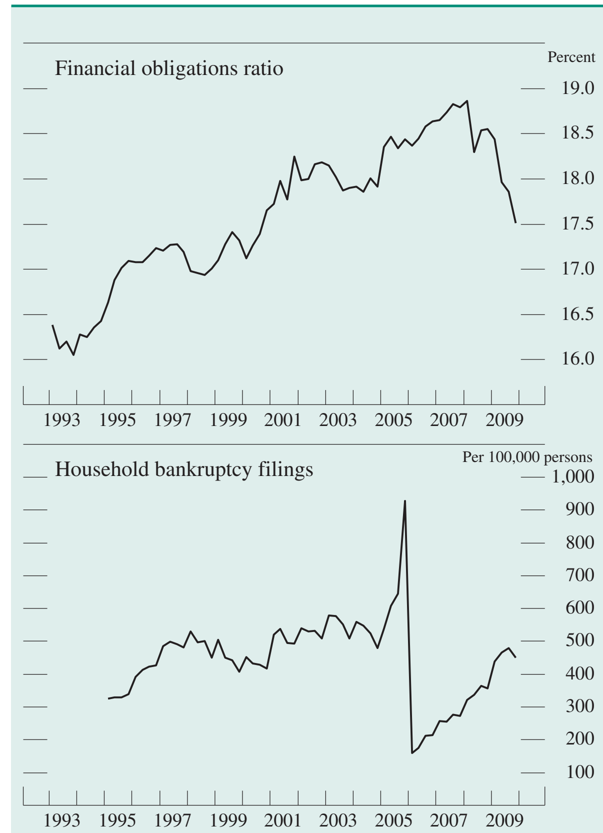
charge-off rates reached historically high levels. In particular, the delinquency rate on construction and land development loans surged to 18½ percent by the end of 2009, and the delinquency rate was 28½ percent for loans that financed the construction of one- to four-family residential properties (figure 12). Meanwhile, the charge-off rate on construction and land development loans reached 8 percent in the fourth quarter. The credit quality of other CRE lending categories deteriorated to a lesser degree but nevertheless appeared to still be worsening at year-end. Indeed, in the January 2010 SLOOS, banks reported expectations of further deterioration in the credit quality of CRE loans over 2010, an outlook that may be seen as a particular concern for smaller banks because their assets are more heavily concentrated in CRE lending. Smaller banks increased their concentration of lending in CRE loans over much of the past decade; at the end of 2009, CRE loans accounted for

13. Change in commercial real estate loans, by major components, 1990–2009



NOTE: The data are annual and adjusted for major structure events.

14. Indicators of household financial stress, 1993–2009



NOTE: The data are quarterly. The financial obligations ratio is an estimate of debt payments and recurring obligations as a percentage of disposable personal income; debt payments and recurring obligations consist of required payments on outstanding mortgage debt, consumer debt, auto leases, rent, homeowner's insurance, and property taxes. The series shown for bankruptcy filings begins in 1995:Q1 and is seasonally adjusted.

SOURCE: For financial obligations ratio, Federal Reserve Board (www.federalreserve.gov/releases/housedebt); for bankruptcy filings, staff calculations based on data from Lundquist Consulting.

about 46 percent of total loans at such banks, compared with about 17 percent of loans at the 100 largest banks.

Banks' holdings of CRE loans fell 6 percent (adjusted for structure activity) in 2009, pulled down by a precipitous drop in loans to fund construction and land development, particularly of one- to four-family residential homes (figure 13).[7] In contrast, loans secured by nonfarm nonresidential properties expanded modestly last year despite the worsening fundamentals in commercial property markets. Some of this relative strength may reflect a substitution away from C&I loans: Given the substantial deterioration in the credit quality of banks' business loan portfolios, some banks reportedly sought stronger collateral for business loans, which may have included forms of real estate. In such cases, the loans would have shifted from the C&I category to loans secured by nonfarm nonresidential real estate. Nonetheless, even growth of nonfarm nonresidential loans slowed over the second half of the year. In other CRE lending, loans backed by multifamily properties grew mildly over most of 2009 but dropped in the fourth quarter.

Household Loans

Banks' holdings of loans to households also declined broadly in 2009. Adjusted for structure activity, residential real estate loans on banks' books decreased 1¾ percent and consumer loans fell 4¼ percent.

Following the financial crisis, households took steps to strengthen their balance sheets. The household financial obligations ratio—an estimate of debt payments and recurring obligations as a percentage of disposable income—fell over 2009 to end the year at its lowest level since 2000; this movement is consistent in part with households paying down debt to reduce their interest and principal burdens (figure 14). In addition, the personal saving rate increased markedly since the beginning of 2008.

However, the combination of low mortgage rates, a tax credit for first-time homebuyers, and improved home affordability likely contributed to the strengthened demand for prime mortgages reported in the SLOOS over the first three quarters of 2009 (figure 15). Compared with 2008, originations of first-lien residential mortgages by commercial banks as a whole rose in 2009.

The decrease in banks' holdings of residential real estate loans last year was attributable to their substantial sales of such loans to the GSEs, their tight lending

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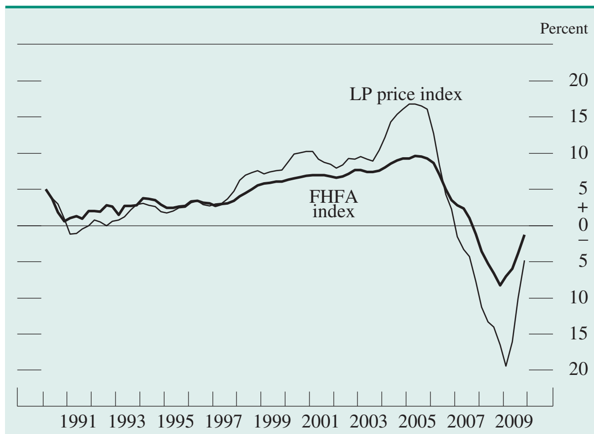
7. Outstanding loans to fund the construction of one- to four-family residential homes totaled only $86 billion at year-end, less than one-half of their peak during the first quarter of 2008.

15. Change in prices of existing single-family homes, 1990–2009



NOTE: The data are quarterly and extend through 2009:Q4; changes are from one year earlier. The LP price index includes purchase transactions only. For 1990, the FHFA index (formerly calculated by the Office of Federal Housing Enterprise Oversight) includes appraisals associated with mortgage refinancings; beginning in 1991, it includes purchase transactions only.

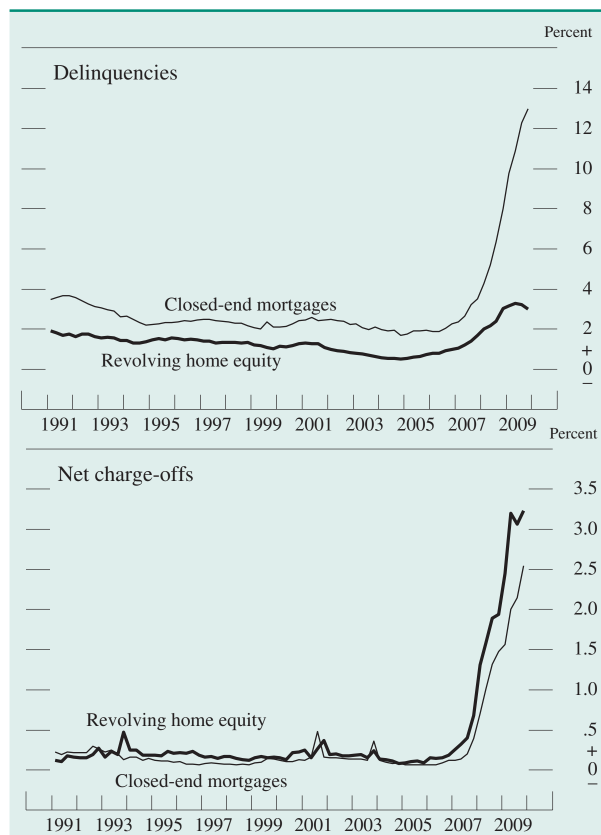
SOURCE: For LP, LoanPerformance, a division of First American CoreLogic; for FHFA, Federal Housing Finance Agency.

standards in an environment of declining home values and high unemployment, and few originations of nontraditional or subprime loans by banks.

The deterioration in the credit quality of banks' closed-end residential real estate loans showed little, if any, sign of abating in 2009 (figure 16). National data on rates of serious delinquency worsened considerably for all classes of borrowers and types of mortgages. Delinquency rates on variable-rate mortgages in particular continued to increase more than those on fixed-rate loans, especially for subprime borrowers (figure 17). Of all major loan classes, banks recorded the highest delinquency rate for residential real estate loans, and the charge-off rate in this category was also very elevated. Banks' holdings of foreclosed real estate rose in 2009 but remained low relative to delinquency rates; such holdings equaled about ½ percent of the value of outstanding closed-end residential mortgages by year-end.

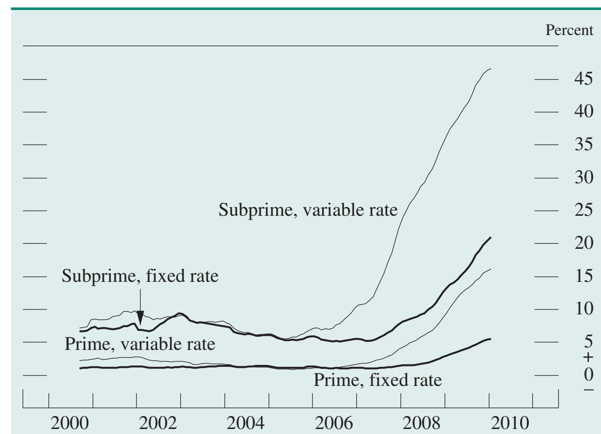
The credit quality of first- and junior-lien closed-end residential mortgages diverged last year. Delinquency and charge-off rates for first liens worsened throughout the year, but the delinquency rate for junior liens stabilized in the second half of the year. The latter development may be explained by the very sharp increase in the charge-off rate on junior liens, as these loans are associated with lower recovery rates and tend to be charged off sooner after becoming delinquent than first liens. In contrast, delinquency and charge-off rates for revolving, open-end home equity loans were about flat for most of the year, likely reflecting banks' tightening of standards on

16. Delinquency and charge-off rates for residential real estate loans at commercial banks, by type of loan, 1991–2009



NOTE: The data are quarterly and seasonally adjusted. For definitions of delinquencies and net charge-offs, see the note for figure 9.

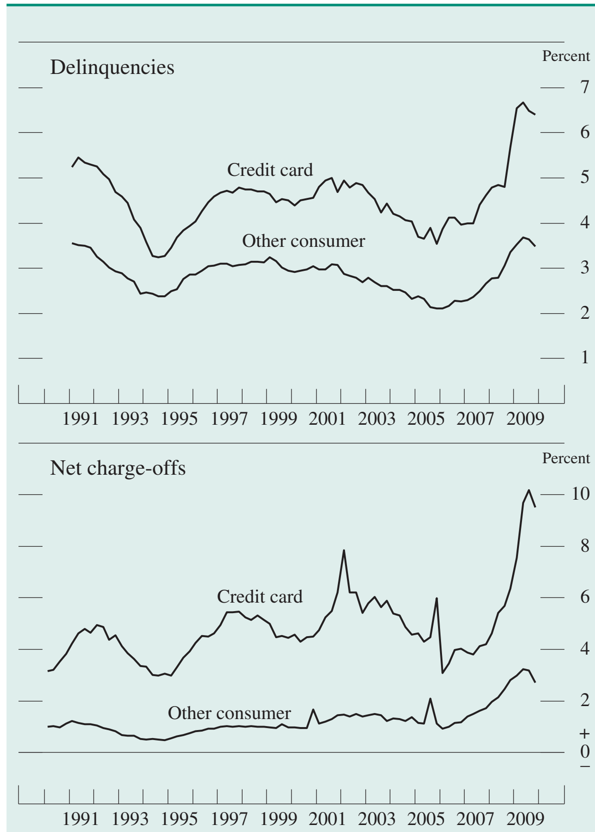
17. Rate of serious delinquency on residential mortgages, by type of mortgage and type of interest rate, 2000–10



NOTE: The data are monthly and extend through January 2010. Seriously delinquent loans are 90 days or more past due or in foreclosure. The prime mortgage data are representative of all residential mortgages, not just those held by commercial banks. The subprime mortgage data cover only securitized loans.

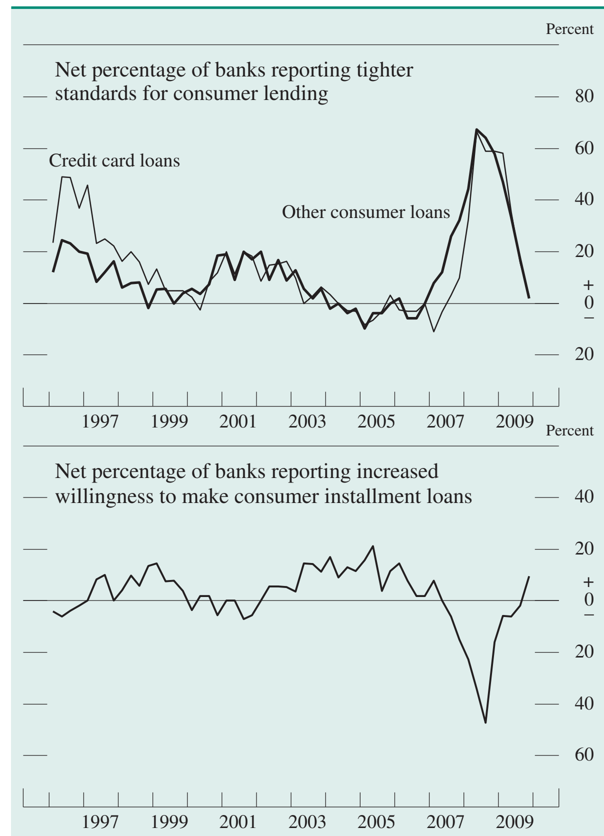
SOURCE: For prime mortgages, McDash Analytics; for subprime mortgages, LoanPerformance, a division of First American CoreLogic.

18. Delinquency and charge-off rates for loans to households, by type of loan, 1990–2009



NOTE: The data are quarterly and seasonally adjusted; data for delinquencies begin in 1991. For definitions of delinquencies and net charge-offs, see the note for figure 9.

19. Changes in supply conditions at selected banks for consumer lending and for consumer installment loans, 1996–2009



NOTE: See figure 8, general note and source note.

such loans over the past several years and their ability to reduce credit lines for borrowers with impaired home values.

Non-credit-card consumer loans expanded somewhat in the second half of 2009, perhaps in part as a result of frictions in the student loan securitization market, which caused banks to retain more of such loans on their books. In addition, this category of lending may have benefited from a pickup in personal consumption expenditures on durable goods during the second half of the year.

In contrast, credit card loans declined substantially over the same period, likely for several reasons. These loans incurred the highest charge-off rates of any major loan category, directly reducing outstandings (figure 18).[8] Also, banks tightened standards and terms on consumer loans (figure 19), partly in anticipation of new regulations. Households may also have reduced their use of credit cards in part to shore up their financial condition, a move that would be consistent with the reduced demand for consumer loans that was reported by notable net fractions of banks in the SLOOS during 2009.

By year-end 2009, the credit quality of consumer loans appeared to have begun to stabilize. The delinquency and charge-off rates on consumer loans declined slightly in the second half of the year but remained at historically high levels, particularly for credit card loans. In the January 2010 SLOOS, banks reported expecting no further deterioration, on net, in the credit quality of consumer credit card loans over 2010, assuming that economic activity progressed in line with consensus forecasts; moderate net fractions of banks expected credit quality to improve for other consumer loans. The largest banks—which are responsible for the bulk of credit card lending—may have begun to benefit from the stabilization in credit

8. For a discussion of the change in bankruptcy law that was implemented in 2005 and its effect on credit card loans, see the box "The New Bankruptcy Law and Its Effect on Credit Card Loans," in Elizabeth Klee and Gretchen Weinbach (2006), "Profits and Balance Sheet Developments at U.S. Commercial Banks in 2005," *Federal Reserve Bulletin,* vol. 92 (June), p. A89.

quality on credit card loans, as evidenced by their reductions in loan loss provisioning during the fourth quarter.

Other Loans

All other loans and leases on banks' books, a volatile category, dropped 7¼ percent over 2009, about the same rate of decline as in 2008. Loans to other depository institutions were about flat for the year. Leases, which are made primarily to businesses for financing equipment or to households for financing automobiles, have been declining for most of the past decade and continued to do so in 2009, albeit at a somewhat faster rate. Bank lending to state and local governments grew during 2009 but not as rapidly as in recent years. Farm loans were about flat for the year, as farm banks have been less affected by the financial crisis, but growth of these loans weakened compared with past years given the wider macroeconomic downturn. The credit quality of farm loans also deteriorated in 2009 but was not notably worse than the average quality of these loans over the past two decades.

Securities

The decline in total loans over 2009 was partially offset by growth in banks' securities holdings of about 20 percent (adjusted for structure activity). While the expansion in securities was shared by banks of all sizes, it was strongest at the 100 largest banks. Amid heavy inflows of core deposits over the course of the year (discussed later in the article) and weak loan demand, banks increased their holdings of Treasury securities and agency non-MBS issues most rapidly, suggesting a preference for liquid, low-risk assets. A total of about $154 billion of these securities was added to commercial banks' balance sheets over 2009, an increase of roughly 67 percent over year-end 2008. The run-up occurred mostly at the 100 largest banks, which traditionally have held fewer of these securities as a share of total securities than smaller banks. Agency MBS, which accounted for roughly 37 percent of banks' securities holdings at year-end 2009, also grew strongly at the 100 largest banks.

In general, banks report both the book value (or amortized cost of acquisition) of their securities and the securities' current market value. The market value of the securities is affected by the credit quality of the issuers or of the assets that back the securities as well as by changes in the general level of interest rates. At the height of the credit market turmoil in the fall of 2008, the market value of many bank-held securities, particularly the non-agency MBS at the center of the crisis as well as the perpetual preferred securities issued by the GSEs, had declined considerably. However, the substantial decline in the general level of interest rates since the onset of the crisis has caused the market value of longer-duration assets with little credit risk to increase.

Over 2009, the difference between reported fair value measurements and book values of available-for-sale securities in investment accounts narrowed, suggesting that banks have substantially lower revaluation losses on their current securities holdings than they did a year ago. At the end of 2008, banks reported net unrealized losses on investment account securities of about $60 billion, led by losses on non-agency MBS and ABS, which were offset a bit by gains in other securities categories, particularly agency MBS. These net unrealized losses waned over 2009, as improving financial conditions and lower interest rates contributed to a recovery in the market prices of many securities. At the end of the fourth quarter, banks reported net unrealized gains of about $9 billion on their investment account securities as a whole.[9] Finally, banks sold some securities at a loss, which was reflected in the $1.7 billion of total net realized losses on securities holdings over 2009.

Cash Assets

Cash assets, including reserve balances with Federal Reserve Banks, expanded considerably in late 2008, a pattern consistent with the considerable growth of the Federal Reserve's balance sheet. Usage of the special liquidity facilities established at the height of the financial crisis gradually fell over the first half of 2009, and reserve balances declined over the same period. However, as the Federal Reserve continued its large-scale asset purchases, reserve balances rose sharply in the third quarter. At year-end, the level of reserve balances was at a record high, accounting for 5 percent of industry assets. The interest rate paid on

9. In early April 2009, the Financial Accounting Standards Board issued guidance related to other-than-temporary impairments (OTTI), or FASB Staff Position (FSP) FAS 115-2, which required impairment write-downs through earnings only for the credit-related portion of a debt security's fair value impairment, while other components would affect other comprehensive income, which includes unrealized gains and losses on available-for-sale securities. (For more information on the guidance, see Financial Accounting Standards Board (2009), "Summary of Board Decisions," webpage, April 2, www.fasb.org/action/sbd040209.shtml.) However, banks reported that the cumulative effect of the initial application of FSP FAS 115-2 on OTTI was only about $1.3 billion in 2009, having only a marginal effect on earnings relative to total unrealized gains and losses and fair value adjustments on securities.

excess reserves held by banks remained at 25 basis points over the year.

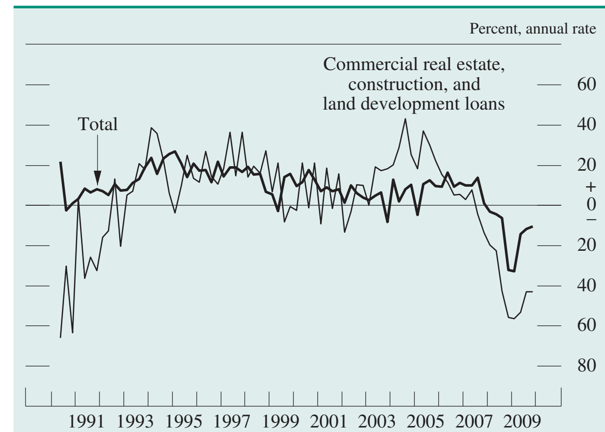
Off-Balance-Sheet Items

For the second consecutive year, banks' off-balance-sheet unused commitments to fund loans contracted steeply, and the runoff was widespread across all major commitment categories (figure 20). Responses to the SLOOS suggest that banks reduced credit lines for both new and existing customers and that those reductions were more prevalent for lower-quality borrowers. In addition, the cuts in lines likely reflected disproportionately the tightened lending standards by banks, as borrowers are presumably unlikely to request reductions in their line size since the marginal cost to borrowers of maintaining unused lines is typically small, especially for households.

Securitized loans, which are not held on banks' books, contracted 5 percent over 2009.[10] Since the data began to be collected in 2002, the only previous annual decline occurred in 2003, with a drop of ½ percent. Last year's decline was likely in response to the impairment of many securitization markets for all or part of the period, as well as the weak lending environment. Securitized mortgages had risen considerably over 2007 and 2008 and still accounted for two-thirds of securitized loans at the end of 2009. However, with the market for non-agency MBS remaining shut last year, balances of securitized mortgages declined about 3¾ percent in 2009. The GSEs, though, continued to purchase large quantities of closed-end residential mortgages from banks.

Securitized credit card loans, which account for a further 20 percent of securitized loans, declined 8¾ percent in 2009. Most of this decline was due to the consolidation of securitized credit card assets in the fourth quarter by one large bank that adopted the new FAS 166 and 167 accounting rules at that time.[11]

20. Change in unused bank loan commitments to businesses and households, 1990–2009



NOTE: The data, which are quarterly, begin in 1990:Q2 and are not seasonally adjusted. The total consists of unused commitments relating to credit card lines; revolving, open-end lines secured by one- to four-family residential properties; commercial real estate, construction, and land development loans; securities underwriting; and "other."

Derivatives

In 2009, the notional principal amount of derivatives contracts held by banks grew a moderate 3¾ percent to reach $220 trillion (table 2).[12] Notional values are boosted substantially by a few of the largest banks, which enter into offsetting positions in their capacities as dealers in derivatives markets. The fair market value of those derivatives contracts held by banks reflects the contracts' replacement costs and is far smaller than the notional principal amount.[13] The aggregate fair market value for all bank contracts with a positive value in 2009 was about $4.1 trillion; for all bank contracts with a negative value, the aggregate fair market value was roughly negative $3.9 trillion. These fair values were considerably smaller relative to their notional values at the end of 2009 than they were at the end of 2008, due to the partial recovery in financial markets from the unprecedented market dislocations that occurred in the fall of 2008. Both the positive and negative fair values

10. Loans that banks sold or securitized with servicing rights retained or with recourse or other seller-provided enhancements are hereafter referred to, for simplicity, as "securitized" loans. The analysis excludes loans that were sold to, and securitized by, a third party (for example, the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation).

11. The Financial Accounting Standards Board (FASB) announced in June 2009 the publication of FAS 166, *Accounting for Transfers of Financial Assets,* and FAS 167, *Amendments to FASB Interpretation No. 46(R) (Consolidation of Variable Interest Entities),* which will change the way companies account for securitizations and special purpose entities. FAS 166 and 167 must be implemented with firms' first financial reporting period ending after November 15, 2009, which for commercial banks effectively means that the implementation will be reflected in their 2010:Q1 Call Reports. For more information, see the FASB's website at www.fasb.org. For more information about the balance sheets of commercial banks, see Board of Governors of the Federal Reserve System (2010), Statistical Release H.8, "Assets and Liabilities of Commercial Banks in the United States" (April 9), www.federalreserve.gov/releases/h8/current/default.htm.

12. Notional amounts are amounts from which contractual payments will be derived and, in most instances, are much larger than the amounts at risk; thus, they do not accurately represent the scope of economic involvement of banks with derivatives.

13. The total of all contracts with a positive fair value is a measurement of credit exposure, or the amount that a bank could lose if its counterparties did not fulfill their contracts. The total of all contracts with a negative fair value at a bank represents a measurement of exposure that the bank poses to its counterparties. Even these fair value amounts can overstate exposure, as counterparties often enter into bilateral "netting" agreements, which allow aggregation of all bilateral exposure into the equivalent of a single trade in the event of default of either party.

2. Change in notional value and fair value of derivatives, all U.S. banks, 2004–09

Percent

Item	2004	2005	2006	2007	2008	2009	MEMO Dec. 2009 (billions of dollars)
Total derivatives							
Notional amount	23.69	15.38	29.75	25.68	27.70	3.80	220,146
Fair value							
Positive	13.71	–6.46	–4.50	68.18	250.24	–42.86	4,057
Negative	13.75	–5.78	–4.27	65.77	249.26	–43.26	3,919
Interest rate derivatives							
Notional amount	22.07	11.92	27.11	20.54	35.85	2.09	179,548
Fair value							
Positive	13.14	–5.52	–14.55	56.19	290.52	–39.06	3,121
Negative	12.94	–5.15	–15.06	58.19	286.45	–39.41	3,023
Exchange rate derivatives							
Notional amount	21.03	7.69	29.27	36.69	–1.46	2.22	17,298
Fair value							
Positive	14.86	–35.84	22.86	43.59	149.12	–45.05	354
Negative	12.74	–37.36	21.39	43.40	163.80	–47.91	345
Credit derivatives							
Notional amount	134.52	148.09	54.93	75.87	1.05	28.76	20,639
Guarantor	139.07	137.87	67.69	73.94	–1.27	31.37	10,143
Beneficiary	130.46	157.53	44.03	77.79	3.30	26.33	10,496
Fair value							
Guarantor	69.92	81.43	92.96	295.25	282.68	–61.31	406
Positive	74.56	–5.62	201.40	–38.79	19.41	230.90	122
Negative	38.37	827.98	–1.59	1187.41	316.11	–71.96	284
Beneficiary	51.28	83.50	90.26	301.20	260.40	–60.12	448
Positive	2.64	505.51	3.98	1086.95	306.28	–70.62	319
Negative	66.36	2.79	187.44	–18.95	–13.35	233.57	129
Other derivatives[1]							
Notional amount	32.66	29.43	75.17	13.44	–9.00	–18.48	2,661
Fair value							
Positive	8.55	58.51	18.99	41.22	33.70	–33.53	142
Negative	19.73	74.29	24.15	15.66	39.27	–32.75	139

NOTE: Data are from year-end to year-end and are as of March 23, 2010.

1. Other derivatives consist of equity and commodity derivatives and other contracts.

contracted substantially over the first half of 2009, and each declined about 43 percent for the year as a whole.

Interest rate products continued to account for more than 80 percent of the notional value of derivatives products held by banks and about 77 percent of positive and negative fair values. Interest rate swaps, which account for most of the interest rate derivatives on banks' books, are an important way for banks to hedge interest rate risk, including that related to interest-sensitive assets such as mortgages and MBS. The notional amount of interest rate swaps declined 1¾ percent over 2009. In addition, both positive and negative fair values dropped substantially, likely in part because of the development of stable low interest rates over the year. Other interest rate derivatives include options, futures, and forwards, and the notional value of these other derivatives contracts grew 16 percent over 2009, in line with the pace in the past few years.

One of the fastest growing components of banks' derivatives portfolios in recent years has been credit derivatives, which, prior to last year, had expanded an average of about 70 percent per year since 2000. After a pause in 2008, credit derivatives resumed growth in 2009.[14] The notional amount of these derivatives grew 29 percent for the year, and at year-end 2009, credit derivatives accounted for 9½ percent of the notional principal value of all derivatives contracts held by banks. By contrast, the fair value of credit derivatives contracts fell 60 percent in 2009, and these products constituted about 11 percent of positive and negative fair values at banks at year-end. These fair values started to decline in the spring of 2009 but remained high relative to historical norms due to the elevated spreads on many of the underlying reference entities. Over the course of the year, as spreads on underlying reference entities receded and overall market functioning improved, the value of such credit protection (the fair values of the credit derivatives) declined. Credit default swaps accounted

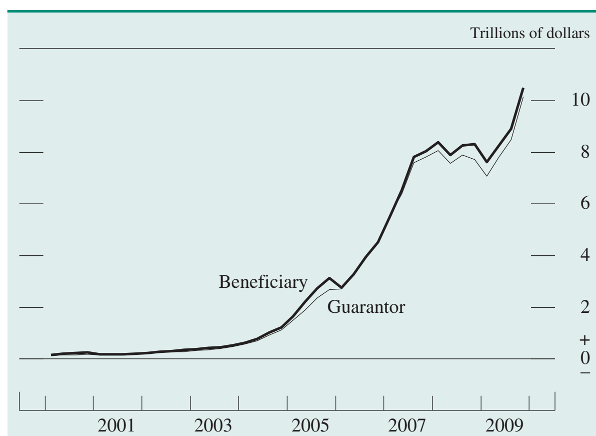
14. The flattening in notional values of credit default swaps during 2008, however, appears to have been due in part to organized efforts to compress offsetting trades and not simply to a reduction in trading activity.

for 98 percent of the notional value of credit derivatives held by banks throughout the year (total return swaps and credit options are two other common types). Banks are beneficiaries of protection when they buy credit derivatives contracts and providers of protection (guarantors) when they sell them. Banks are typically net beneficiaries of protection; as of year-end, contracts in which banks were beneficiaries of protection totaled $10.5 trillion in notional value, and contracts in which they were guarantors totaled $10.1 trillion (figure 21).

Banks also use derivatives related to foreign exchange, equities, and commodities. Collectively, those instruments accounted for about 9 percent of the notional value of the derivatives contracts held by banks at year-end. Banks' notional holdings of foreign-exchange-related derivatives grew 2¼ percent in 2009. Their notional holdings of equity and commodity derivatives together fell 18½ percent, a second consecutive annual decline.

The share of industry derivatives contracts (in terms of notional value) at the 10 largest banks (in terms of assets) had for years been more than 97 percent, a concentration ratio that reflected the role that some of the largest banks play as dealers in derivatives markets. However, since the end of 2008, that share has declined to about 80 percent, as the reorganization of a prominent derivatives dealer involved booking these derivatives at one of its commercial bank subsidiaries that remained outside of the 10 largest banks at the end of 2009. Still, banks' derivatives holdings were highly concentrated over the past two years: The 5 banks with the most derivatives activity in 2009, including 1 bank not among the 10 largest banks by assets, held 96 percent of all derivatives by notional amounts.[15]

21. Notional amounts of credit derivatives for which banks were beneficiaries or guarantors, 2000–09



Note: The data are quarterly.

Liabilities

Total liabilities on banks' books declined about 5½ percent in 2009. Adjusting for major structure events, liabilities contracted 6¾ percent. As was true of the decrease in assets, the decline in liabilities was concentrated at the 100 largest banks. The runoff in liabilities took place in the context of deleveraging by banking institutions amid weak loan demand and tight credit standards; banks reduced assets, raised capital, and pared back relatively more expensive sources of funding. Thus, banks did not compete strongly for managed liabilities or small time deposits, and declines in those components accounted for the contraction of overall liabilities. Indeed, small time deposits shrank substantially over 2009, reversing a steep run-up during the height of the financial crisis in late 2008, after which the spreads between rates on time and savings deposits declined markedly.

While overall liabilities contracted, total core deposits grew about 8 percent in 2009, well above the average pace during years prior to the financial crisis. As a result, for the second consecutive year, core deposits rose as a share of bank funding.[16] Amid low market interest rates, the opportunity cost of holding liquid deposits remained low in 2009, and consequently savings and transaction deposits grew sizably (figure 22). With money market rates unusually low, money market mutual funds experienced large outflows, some of which may have ended up at banks as the public sought the safety and liquidity of insured deposits (figure 23). Reinforcing this trend was the extension through 2013 of the temporary increase in the Federal Deposit Insurance Corporation's maximum deposit insurance amount to $250,000, which previously had been in place only through the end of 2009.[17] The FDIC also extended, until the end of June 2010, its program providing unlimited guarantees of transaction accounts, although the new higher annual assessment rates for participating banks caused many large institutions to opt out of the program at year-end 2009.

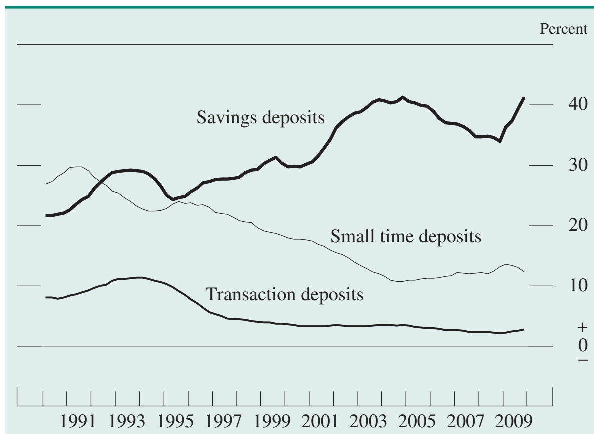
Managed liabilities contracted 16½ percent over 2009. Given strong growth of core deposits and

15. Office of the Comptroller of the Currency, *OCC's Quarterly Report on Bank Trading and Derivatives Activities, Third Quarter 2009* (Washington: OCC), available at www.occ.treas.gov/deriv/deriv.htm.

16. Core deposits consist of savings deposits (including money market deposit accounts), small-denomination time deposits, and transaction deposits.

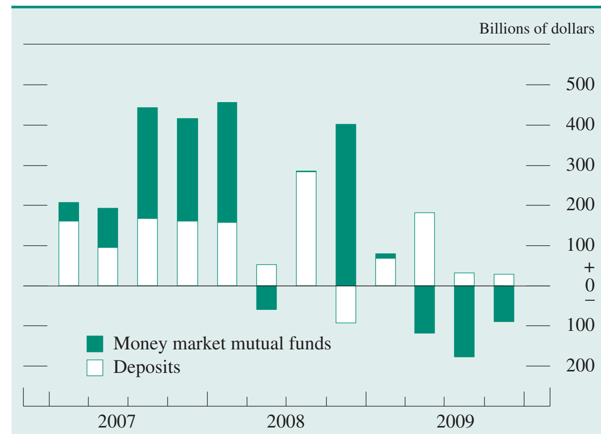
17. This extension became effective on May 20, 2009.

22. Selected domestic liabilities at banks as a proportion of their total domestic liabilities, 1990–2009



Note: The data are quarterly. Savings deposits include money market deposit accounts.

23. Net flows into money market mutual funds and deposits at commercial banks, 2007–09



Note: The data are aggregated from weekly to quarterly frequency.
Source: For money market mutual funds, iMoneyNet; for deposits, Federal Reserve Board, Statistical Release H.8, "Assets and Liabilities of Commercial Banks in the United States" (www.federalreserve.gov/releases/h8).

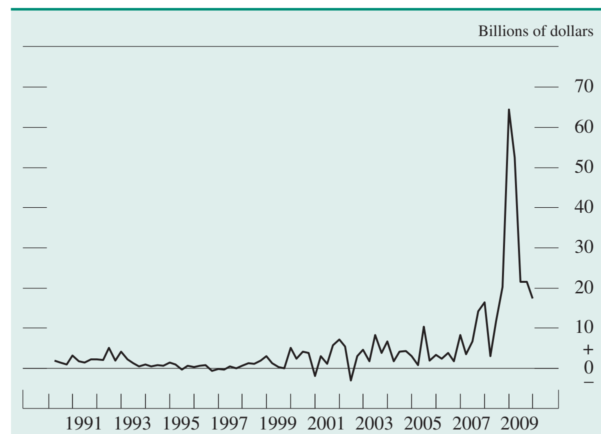
shrinking assets, banks were able to continue reducing their reliance on these generally more expensive and less stable sources of funds. Large time deposits ran off appreciably, while deposits booked in foreign offices were about flat for the year. In addition to paring back advances from the Federal Home Loan Banks over the course of the year, commercial banks decreased their borrowings from the Federal Reserve liquidity facilities introduced during the crisis.[18] Net borrowings in the federal funds market declined in light of banks' hefty reserve holdings.

Banking institutions issued about $300 billion of debt under the debt guarantee portion of the FDIC's Temporary Liquidity Guarantee Program (TLGP), which was established in October 2008. The TLGP guarantees, in exchange for a fee, short- and medium-term debt maturing on or before December 31, 2012. About five-sixths of this debt was issued by bank holding companies (BHCs) and so does not appear directly as long-term debt at the bank level. The program was used most heavily before the summer of 2009. After the results of the Supervisory Capital Assessment Program were released in May, many banks were able to issue sufficient amounts of debt without the guarantee. In October, the FDIC ended the Debt Guarantee Program component of the TLGP and established a new, limited emergency guarantee facility in order to promote the transition of banking institutions away from such support.

Capital

The banking industry shored up its capital position in 2009. The equity capital of commercial banks rose to about 11¼ percent of assets by the end of 2009, up considerably from about 9½ percent at the end of 2008. The increase was due largely to substantial infusions of capital from parent BHCs throughout the year. Total capital transfers in 2009 amounted to $113 billion. These additions augmented the large transfers that occurred in the fourth quarter of 2008 (figure 24). In many cases, the transfers reflected the

24. Capital transfers to commercial banks from parent bank holding companies, 1990–2009



Note: The data are quarterly.

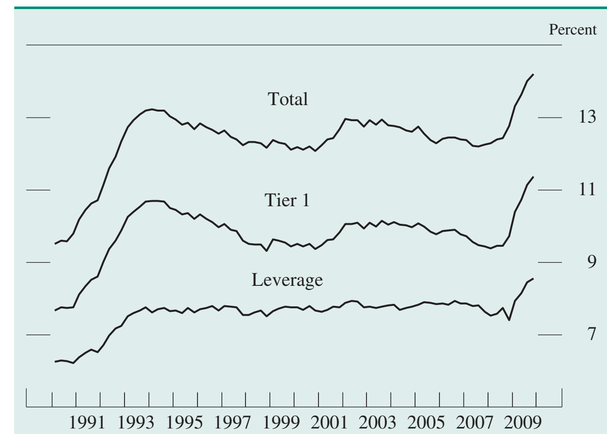
18. The Federal Home Loan Banks (FHLBs) were established in 1932 as GSEs chartered to provide a low-cost source of funds, primarily for mortgage lending. They are cooperatively owned by their member financial institutions, a group that originally was limited to savings and loan associations, savings banks, and insurance companies. Commercial banks were first able to join FHLBs in 1989, and since then FHLB advances have become a significant source of funding for them, particularly for medium-sized and small banks. The FHLBs are cooperatives, and the purchase of stock is required in order to borrow.

downstreaming of capital raised by the parent BHC through the Troubled Asset Relief Program's Capital Purchase Program (CPP). Although many BHCs repaid CPP funds during the second half of 2009, most of that equity was replaced by secondary equity issuance by large BHCs that had been evaluated under the SCAP. As public equity markets improved further in the second half of 2009, other banks were also able to issue new shares to build capital or repay CPP investments. (For more information, see box "The Capital Purchase Program and the Supervisory Capital Assessment Program.")

Retained earnings as a share of total equity dropped from about 27 percent at the end of 2008 to about 22 percent at the end of 2009. That component was reduced by declared dividends that exceeded profits for the second consecutive year, even though such payouts as a percentage of average assets were at historically low levels. A large majority of the dividends were declared by banks in the top five BHCs. These relatively more profitable institutions repaid their CPP funds in the second half of 2009 and were not subject to the restrictions on dividends at the BHC level that are associated with the receipt of TARP funds.[19] For the entire year, dividends at profitable banks amounted to 0.55 percent of average assets, while dividends at the other banks amounted to only 0.04 percent.

On balance, all three regulatory capital ratios increased to record levels (figure 25). The leverage ratio increased by 1 percentage point to about 8½ percent by the end of 2009.[20] The tier 1 and total risk-based capital ratios, measured relative to risk-weighted assets, each increased substantially—from about 9¾ percent to 11½ percent and from about 12¾ percent to 14¼ percent, respectively.[21] Reductions in risk-weighted assets and average tangible assets as well as increased capital contributed to higher regulatory capital ratios in 2009. The reduction in risk-weighted assets was partly attributable to a shift in the composition of assets from loans to cash and securities, while total assets shrank as loans outstanding on banks' books ran off steeply last year.

25. Regulatory capital ratios, 1990–2009



NOTE: The data are quarterly. For the components of the ratios, see text notes 20 and 21.

Several factors likely contributed to banking institutions' efforts to boost capital. First, some of the largest banking organizations were required to augment their capital as a result of the SCAP process. Second, a few banks faced substantial increases in both risk-weighted and total assets associated with the large amounts of off-balance-sheet assets that are required to be consolidated on banks' balance sheets by the end of the first quarter of 2010 in conjunction with the adoption of Statements of Financial Accounting Standards Nos. 166 and 167. Those consolidations may have led some institutions to add to their capital prior to the accounting change.[22] Third, capital is generally considered a buffer to protect uninsured depositors and other

19. The top five BHCs are ranked by the combined assets of commercial bank subsidiaries for a given BHC. As of the fourth quarter of 2009, the top five BHCs had 28 commercial bank subsidiaries, which accounted for about 52 percent of total commercial bank assets. For more information on the dividend restrictions, see the public term sheet for the CPP, which is an attachment to U.S. Department of the Treasury (2008), "Treasury Announces TARP Capital Purchase Program Description," press release, October 14, www.ustreas.gov/press/releases/hp1207.htm.

20. The leverage ratio is the ratio of tier 1 capital to average tangible assets. Tangible assets are equal to total average consolidated assets less assets excluded from common equity in the calculation of tier 1 capital.

21. Tier 1, tier 2, and tier 3 capital are regulatory measures. Tier 1 capital consists primarily of common equity (excluding intangible assets such as goodwill and excluding net unrealized gains on investment account securities classified as available for sale) and certain perpetual preferred stock. Tier 2 capital consists primarily of subordinated debt, preferred stock not included in tier 1 capital, and loan loss reserves up to a cap of 1.25 percent of risk-weighted assets. Tier 3 capital is short-term subordinated debt with certain restrictions on repayment provisions and is limited to approximately 70 percent of a bank's measure for market risk. Total regulatory capital is the sum of tier 1, tier 2, and tier 3 capital. Risk-weighted assets are calculated by multiplying the amount of assets and the credit-equivalent amount of off-balance-sheet items (an estimate of the potential credit exposure posed by the items) by the risk weight for each category. The risk weights rise from 0 to 1 as the credit risk of the assets increases. The tier 1 ratio is the ratio of tier 1 capital to risk-weighted assets; the total ratio is the ratio of the sum of tier 1, tier 2, and tier 3 capital to risk-weighted assets.

22. Banks have an option to phase in the effects of the implementation of FAS 166 and 167 on risk-weighted assets and tier 2 capital over four quarters. See Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, and Office of Thrift Supervision (2010), "Agencies Issue Final Rule for Regulatory Capital Standards Related to Statements of Financial Accounting Standards Nos. 166 and 167," press release, January 21, www.federalreserve.gov/newsevents/press/bcreg/20100121a.htm.

The Capital Purchase Program and the Supervisory Capital Assessment Program

In 2009, parent bank holding companies (BHCs) transferred a record level of capital to commercial banks within their organizational structures. Such transfers resulted in significantly higher regulatory capital ratios for those subsidiary banks. The capital transfers themselves were initially supported by large injections of government capital at the BHC level through the Troubled Asset Relief Program (TARP), launched in October 2008, and primarily through the TARP Capital Purchase Program (CPP).[1] The CPP initially was allotted $250 billion to purchase senior preferred shares of financial institutions in order to stabilize the financial system by increasing the capital base of financial institutions and to support their capacity to make loans to businesses and households. Financial institutions participating in the program agreed to pay the Treasury a 5 percent dividend on the preferred shares per year for the first five years and 9 percent per year thereafter. At the end of 2008, the CPP had almost $180 billion invested in more than 200 financial institutions. Most of the capital was committed to the largest U.S. financial institutions (figure C, top panel). By the end of 2009, more than 650 institutions had received CPP investments. CPP balances peaked at close to $200 billion in the second quarter, but afterward many banks began to repay those investments. As of year-end, CPP balances had fallen to less than $85 billion.

A turning point in the outstanding balances of the CPP program was the Supervisory Capital Assessment Program (SCAP), otherwise known as the bank stress tests. Led by the Federal Reserve, the U.S. federal banking supervisory agencies conducted the SCAP from February to April 2009 and released the results in May.[2] The objective of the SCAP was to conduct a comprehensive, consistent, and simultaneous assessment of capital needs across the 19 largest BHCs using a common set of macroeconomic scenarios and a common forward-looking framework.[3] More specifically, the SCAP estimated losses, revenues, and loss reserve needs for the next two years under two macroeconomic scenarios.[4] The program was designed to assess the need for a BHC to raise or improve the quality of capital in order to have sufficient capital buffers to sustain lending even in a more adverse economic scenario. The SCAP results identified 10 BHCs as requiring additional capital or higher-quality capital. The detailed publication of the SCAP results also helped clarify the financial conditions of the largest BHCs and provided investors with greater assurance about the health of these institutions. The resulting improvement in market sentiment regarding banking institutions, reinforced by the stabilization of the economic outlook at the time, allowed the BHCs to tap capital markets for substantial funds. Most of the 19 BHCs included in the SCAP issued equity, some to raise their required SCAP buffer and some to repay the

1. The Treasury also purchased preferred stock at Citigroup, Inc., and Bank of America Corporation through the TARP Targeted Investment Program (TIP). Both institutions fully repaid their TIP balances in the fourth quarter of 2009.

2. For an overview of the results, see www.federalreserve.gov/bankinginforeg/scap.htm.

3. The following 19 BHCs were in the SCAP: American Express Company; Bank of America Corporation; The Bank of New York Mellon Corporation; BB&T Corporation; Capital One Financial Corporation; Citigroup, Inc.; Fifth Third Bancorp; GMAC LLC; The Goldman Sachs Group, Inc.; JPMorgan Chase & Co.; KeyCorp; MetLife, Inc.; Morgan Stanley; PNC Financial Services Group, Inc.; Regions Financial Corporation; State Street Corporation; SunTrust Banks, Inc.; U.S. Bancorp; and Wells Fargo & Company Bank Holding Company.

4. The two scenarios consisted of a "baseline scenario" and a "more adverse scenario." The baseline scenario relied on a consensus view about the depth and duration of the recession, assuming real GDP growth and the unemployment rate for 2009 and 2010 equal to the average of the projections published by Consensus Forecasts, the Blue Chip survey, and the Survey of Professional Forecasters as of February 2009. In addition, house prices were assumed to be in line with futures prices for the S&P/Case-Shiller 10-city composite index in late February and with the average response to a special question on house prices in the Blue Chip survey. The more adverse scenario was designed to characterize a recession longer and more severe than the consensus expectation, with house prices assumed to be significantly lower by the end of 2010 than in the baseline scenario.

senior stakeholders against unexpected losses that a bank may potentially incur beyond what it has set aside in reserves. In the current uncertain economic environment, banks may want a larger than usual buffer. Moreover, banks' loan loss reserves—which are intended to cover estimated likely credit losses—have fallen to very low levels relative to their delinquent loans and charge-offs, even as certain sectors of the economy to which many banks have significant exposures, such as commercial real estate, remain fragile. Finally, both national and international authorities are considering tightening capital requirements in light of the crisis.

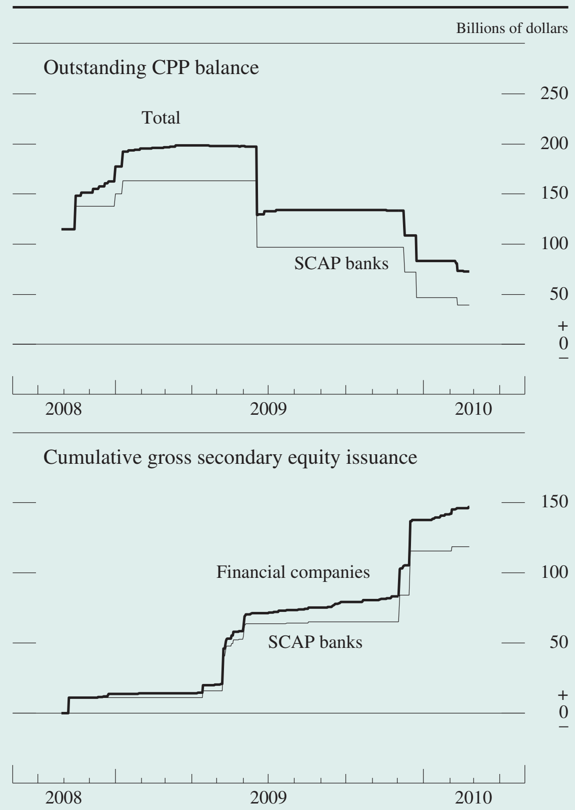
Although not part of regulatory capital, accumulated other comprehensive income (AOCI), which includes net unrealized gains and losses on available-for-sale securities and accumulated net gains and losses on cash flow hedges, continued to play an important role as a component of equity last year. Particularly during the period of greatest stress on the banking system in late 2008 and the first half of 2009, market participants focused on various measures of tangible common equity (TCE) relative to tangible or risk-weighted assets as important indicators of banks' financial condition. These measures usually incorporated AOCI in the calculation of tangible capital. The increase in AOCI, which was largely due to the notable reduction in unrealized losses on available-for-sale securities, helped improve industry TCE ratios in 2009.

Treasury investments through the CPP and, eventually, other TARP programs (figure C, bottom panel). Other banks also issued equity in the second half of 2009 to bolster their capital or repay CPP investments. The preferred shares owned by the government were replaced primarily with common stock held by private investors. Reflecting the inflow of both government and private capital to BHCs, capital transfers by the BHCs to their commercial bank subsidiaries were strong throughout 2009.

While the CPP and SCAP helped reduce the uncertainty about the capital adequacy of large financial institutions and contributed to improved market functioning, it is difficult to assess the extent to which the CPP and SCAP succeeded in fostering lending to creditworthy businesses and households. Banks' lending activity, as measured by the sum of total loans and unused loan commitments outstanding, fell substantially last year, and lending standards and terms continued to tighten according to the Federal Reserve's Senior Loan Officer Opinion Survey on Bank Lending Practices. However, some of the fall in credit was likely due to weaker demand by households and businesses as the economy remained fragile. In addition, at least some tightening of credit standards and terms is also to be expected when economic growth is weak or uncertain, and so a tightening may not reflect pressures on capital. Indeed, credit might have been even weaker and lending standards even tighter without the programs.

One can say, however, that the cumulative magnitude of the capital transfers that were stimulated by the CPP and SCAP was substantial. Without the capital transfers from parent BHCs since the fourth quarter of 2008, the regulatory capital ratios of commercial banks would have been 1½ to 2 percentage points lower at the end of 2009. Although some of that difference in regulatory capital ratios in the absence of the CPP likely would have been made up through other means, such as stock sales and conversions, a further decrease in risk-weighted assets and average tangible assets may also have resulted.

C. Outstanding balance in the Capital Purchase Program, and cumulative gross secondary equity issuance, October 2008–February 2010



NOTE: The data are daily and extend from October 28, 2008, to February 24, 2010. CPP is the Capital Purchase Program; SCAP is the Supervisory Capital Assessment Program.

SOURCE: For outstanding CPP balance, Department of the Treasury; for cumulative gross secondary equity issuance, Securities Data Corporation New Issues Database.

Trends in Profitability

Total annual net income of the commercial banking industry as a percentage of average assets remained depressed in 2009, as profits were weighed down by high levels of loss provisioning. Elevated provisions were offset by higher noninterest income, particularly income from capital-market-related activities. Net interest margins remained basically unchanged, and noninterest expense edged down despite significant increases in FDIC assessments. Notably, large banks posted a small profit, on balance, while other banks ended the year with an aggregate loss.

Return on assets for the banking industry as a whole stayed very low by historical standards at 0.04 percent, and return on equity was 0.42 percent, with both profitability measures depressed by elevated loss provisioning amid the deterioration in credit quality. Banks increased provisioning to 1.95 percent of industry average consolidated assets in 2009, up from 1.48 percent in 2008. At the same time, charge-offs surged to 1.47 percent of industry assets—compared with 0.83 percent in 2008—limiting the rise in the stock of loan loss reserves, and delinquency rates increased dramatically throughout 2009. Although the rate of provisioning edged down in the final quarter of last year, consistent with reduced charge-offs in some loan categories, some measures of reserve adequacy remained very low.

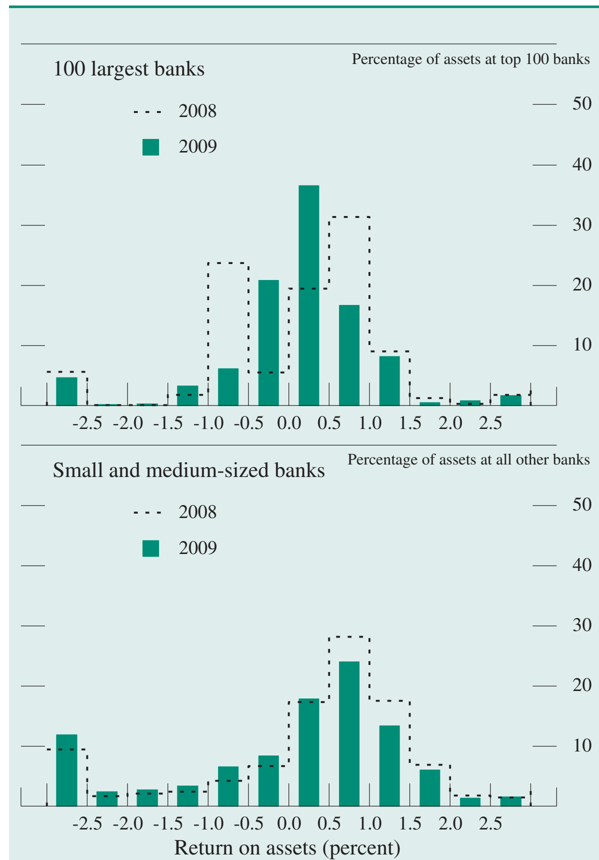
Despite the high levels of provisioning, the ROA at large banks increased from 0.04 percent in 2008 to 0.12 percent in 2009. The improvement in profitability was due mainly to a rebound in these banks'

noninterest income. In particular, trading revenue at large banks was boosted by significant improvements in financial markets throughout the year, including higher equity prices and lower interest rates on corporate bonds and other securities. In addition, relative to 2008, less noninterest expense, smaller losses on securities held in investment accounts, and improvements in net interest income supported earnings for the 100 largest banks. The improvement in net interest income was attributable to significant inflows of relatively low-cost core deposits, allowing banks to run off their more expensive managed liabilities. However, the improvement in profitability among the largest institutions was not uniform (figure 26, top panel). Forty-three of the top 100 banks—accounting for about 35 percent of the assets of such banks—incurred losses, compared with 35 of the top 100 banks in 2008.

In contrast, the fourth quarter of 2009 marked the sixth consecutive quarter of losses at small and medium-sized banks. ROA for such banks fell to negative 0.29 percent in 2009 from 0.10 percent in the previous year. The modest leftward shift in the distribution of ROA for such banks in 2009 reflects a deterioration in profitability for the group as a whole (figure 26, bottom panel). The fraction of small and medium-sized banks that incurred annual losses increased to about 30 percent in 2009, up from 23 percent in 2008. These institutions accounted for about 36 percent of assets at all small and medium-sized banks.

Several factors contributed to the weaker performance of smaller banks relative to larger ones. Smaller banks are not active in the capital market activities that provided a substantial source of revenue for large banks. In addition, smaller banks are relatively more exposed to the deterioration in loan quality, as loans compose a higher percentage of their assets. On the cost side, smaller banks could not substitute additional core deposits for managed liabilities to the same degree as large banks, as smaller banks already relied significantly on low-cost deposits for funding.

26. Distribution of return on assets at commercial banks, by size of bank and by percentage of assets at all banks in each size category, 2008–09



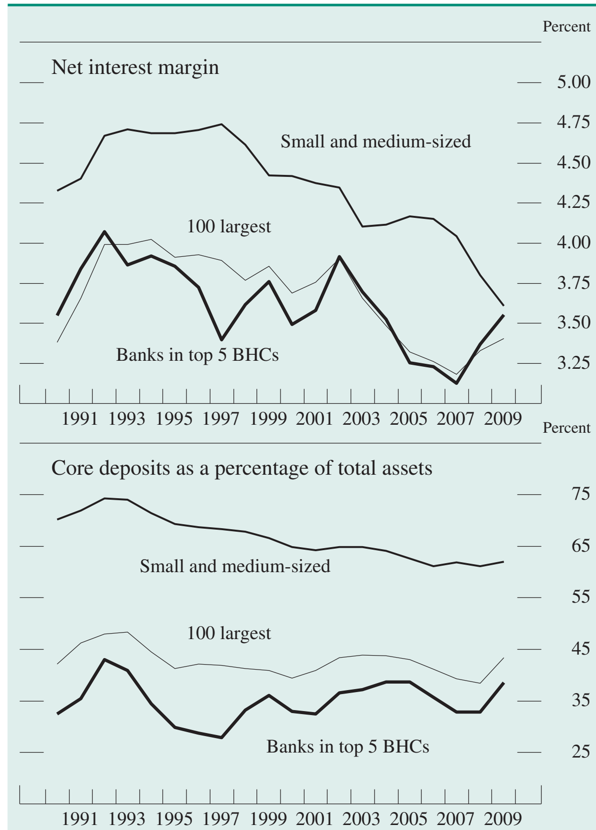
NOTE: Assets are deflated by a gross domestic product price deflator. For the definition of bank size, see the general note on the first page of the main text.

Interest Income and Expense

Overall, banks earned an average of 4.62 percent on their interest-earning assets in 2009, down from 5.72 percent in the previous year. The decline was due partly to large compositional shifts in banks' assets from loans to securities, an asset class that typically carries lower average interest rates. Indeed, the average effective interest rate on loans last year was 5.54 percent, while the rate on securities was significantly lower at 4.15 percent. However, the effective interest rate earned on loans net of provisioning fell sharply to just 2.10 percent, an unusually low rate of return by historical standards. The deterioration in loan quality also significantly reduced banks' interest income, as large fractions of loans that had yet to be charged off moved to nonaccrual status.

Meanwhile, consistent with the extended period of accommodative monetary policy, the average interest rate that banks paid on their interest-bearing liabilities fell steeply again, from 2.53 percent in 2008 to 1.30 percent in 2009. However, banks' use of substantial inflows of core deposits to pay down more costly managed liabilities was also an important factor in the decline. Core deposits are an attractive source of funding for banks because they tend to be fairly stable, as well as carry relatively low interest costs compared with managed liabilities. Most of the increase in core deposits last year came in the form of savings deposits, for which the effective interest rate

27. Net interest margin and core deposits as a percentage of total assets, by size of bank, 1990–2009



NOTE: The data are annual. Net interest margin is net interest income divided by average interest-earning assets. Core deposits consist of transaction deposits, savings deposits, and small time deposits. For the definition of bank size, see the general note on the first page of the main text; for the definition of the top five bank holding companies (BHCs), see text note 19.

paid in 2009, measured by interest paid on such accounts relative to their average balances, was historically low at about 0.50 percent, down from 1.24 percent in 2008.

On balance, the industry-wide net interest margin was little changed in 2009 despite the reported widening of spreads for many types of new loans over banks' cost of funds, as noted in the SLOOS, and evidence of wider spreads on newly originated commercial and industrial loans from the Survey of Terms of Business Lending, possibly due to a large fraction of loans moving to nonaccrual status. However, the net interest margin for the largest banks improved noticeably over the past two years: For banks in the top five BHCs, net interest margins increased from 3.13 percent in 2007 to 3.55 percent in 2009 (figure 27, top panel). These institutions benefited the most from the decrease in funding costs associated with shedding higher-cost managed liabilities in favor of core deposits. Indeed, core deposits at banks in the top five BHCs jumped from less than 33 percent of average consolidated assets in 2008 to almost 39 percent in 2009 (figure 27, bottom panel). In addition, the substantial increase in equity capital at large organizations, though accounting for a small percentage of assets, also boosted net interest margins, as neither common nor preferred dividends are included in banks' interest expense.

In contrast, core deposits at small and medium-sized banks have been relatively stable over the past few years, averaging just above 60 percent of assets since 2006. The net interest margins at small and medium-sized banks decreased from 3.80 percent in 2008 to 3.61 percent in 2009, as the drop in their asset yields exceeded the decline in the rates they paid on their liabilities.

Noninterest Income and Expense

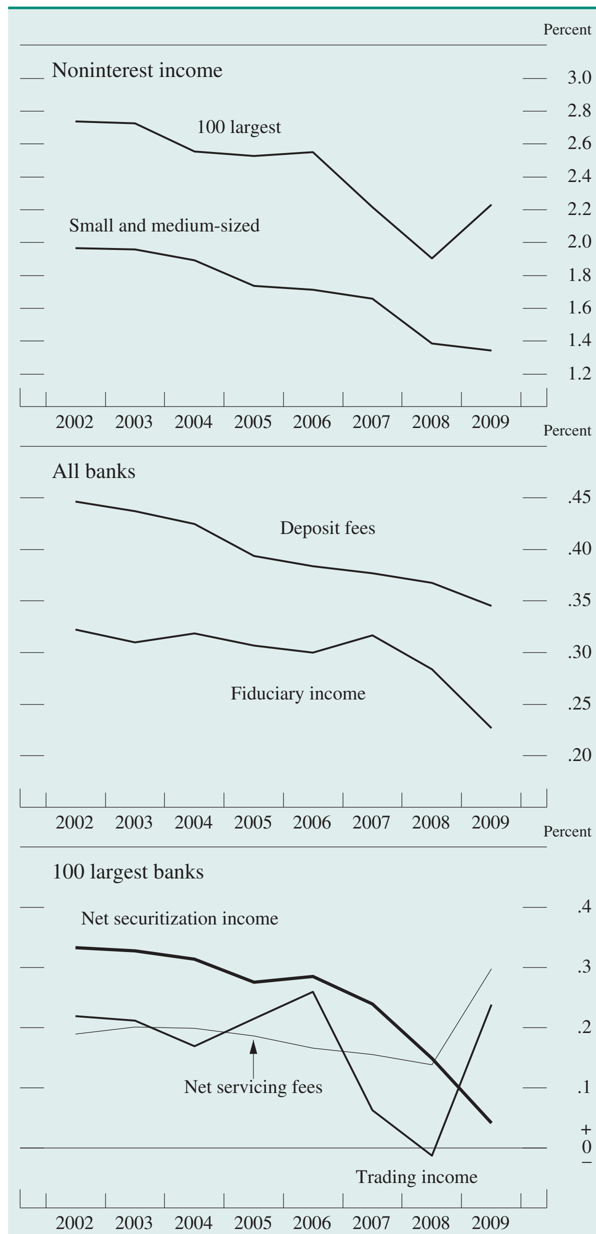
Total noninterest income rebounded in 2009 to 2.07 percent of average assets. Most of the improvement was due to trading revenue at large banks returning to pre-crisis levels (figure 28, top panel). However, large banks' noninterest income was also boosted by a significant increase in income from net servicing fees and a substantial rise in the fair value of financial instruments accounted for under a fair value option as conditions in financial markets improved.[23] These improvements at large banks were offset somewhat by a sizable drop in net securitization income and a small decline in income from deposit fees. Income from fiduciary activities also decreased, largely because of a sharp drop in the first quarter of 2009 as assets under management and the number of accounts at bank trust departments fell in the wake of the decline in stock prices. In contrast, noninterest income at small and medium-sized banks inched down last year to 1.34 percent of average assets, primarily because they also suffered from the decrease in income from fiduciary activities (figure 28, middle panel).

The divergent pattern of noninterest income between the large and the other banks mostly reflected the different composition of their financial intermediation activities. Trading revenue, net servicing fees, card interchange fees, and net securitization income composed less than 13 percent of small and medium-sized banks' noninterest income in 2009, compared

23. Some of the increase in the fair value of financial instruments may have been related to the new fair value guidance that was issued by the Financial Accounting Standards Board in April 2009 (FASB Staff Position FAS 157–e), which reduced the emphasis on "last transaction price" when markets are not active and transactions are likely to be forced or distressed. Generally, larger banks have tended to adopt the fair value option more widely than smaller banks.

with about 35 percent for large banks. For large banks, trading revenue was boosted to pre-crisis levels by significant improvements in income from interest rate and credit exposures as conditions in financial markets improved (figure 28, bottom panel). The increase in net servicing fees—which include income from servicing mortgages, credit cards, and other off-balance-sheet assets, as well as changes in the fair value of such servicing rights—was partly a consequence of the consolidation of some large thrift institutions into the banking sector in the second and fourth quarters of 2009. Further, large banks reportedly sold sizable amounts of seasoned residential mortgage loans to the government-sponsored enterprises last year, and some may have retained servicing rights to those loans. While bankcard and credit card interchange fees continued to be an important source of noninterest income for large banks, net securitization income fell rapidly for the second consecutive year because of relatively subdued securitization activity.[24] Other noninterest income items not mentioned separately already made up about 35 percent of noninterest income for the industry as a whole.[25]

28. Noninterest income, and selected components, as a proportion of total assets, by size of bank, 2002–09



NOTE: The data are annual. For the definition of bank size, see the general note on the first page of the main text.

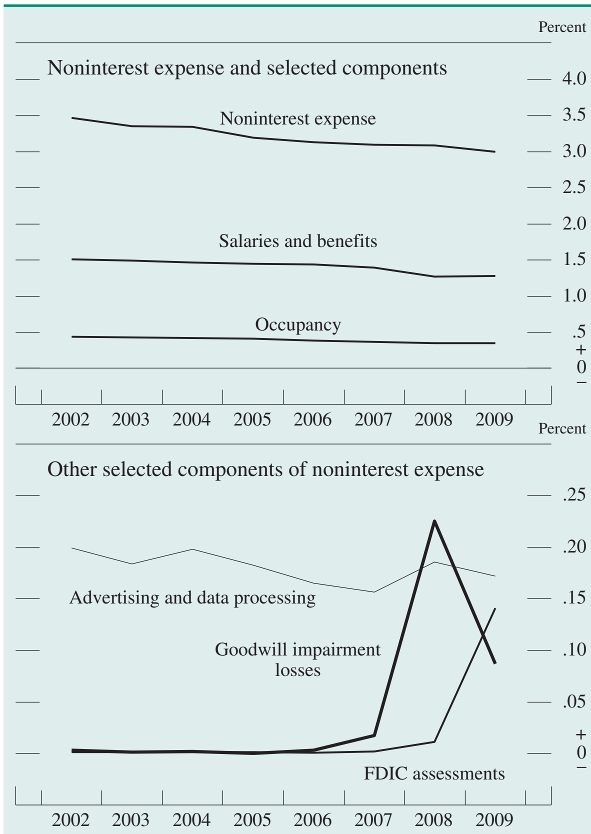
Banks' noninterest expense edged down to 3 percent of average assets in 2009 (figure 29, top panel). Salaries, wages, and employee benefits composed about 43 percent of noninterest expense, a figure that continues to be fairly low by historical standards. Among other noninterest expense items, net expenses of premises and fixed assets (excluding mortgage interest) continued to account for about 12 percent of noninterest expense. Goodwill impairment charges decreased from more than $26 billion in 2008 to about $10 billion in 2009.[26] That improvement was offset, however, by rising FDIC assessment fees, which jumped to about $17 billion in 2009 from slightly more than $1 billion in 2008 (figure 29, bottom panel); those fees were exceptionally elevated in the second quarter of 2009, when the FDIC levied a special assessment fee in order to replenish the Deposit Insurance Fund (DIF) because of the growing number of bank failures. In the second half of 2009, the FDIC raised its estimated cost of bank failures and required banks to prepay regular assessments through 2012, with higher assessment rates applied for 2011 and 2012, in order to

24. Such income is composed of net gains and losses on assets sold in the bank's own securitization transactions net of transaction costs—this includes unrealized losses (and recoveries of unrealized losses) on loans and leases held for sale in the bank's own securitization transactions and fee income from securitizations, securitization conduits, and structured finance vehicles.

25. These other items include fees and commissions from securities brokerage, investment banking, advisory services, securities underwriting, and annuity sales; underwriting income from insurance and reinsurance activities; venture capital revenue; net gains and losses on sales of assets excluding securities; and other noninterest items. Items reported separately already are deposit fees, net servicing fees, fiduciary income, trading revenue, card interchange fees, the net change in the fair value of financial instruments, and net securitization income.

26. Banks incur goodwill impairment losses when the market value of their business segments (or reporting units) drops below the fair value recorded by the company. Companies must test for impairment of goodwill annually or when events occur that would likely reduce the fair value of a business segment (or reporting unit) below the carrying value. Assets are written down when considered overvalued compared with the market value—that is, the amount that a potential (or actual) acquirer would be willing to pay (or had paid) for the assets.

29. Noninterest expense and selected components, and other selected components of noninterest expense, as a proportion of total assets, 2002–09



NOTE: The data are annual. For the definition of goodwill impairment losses, see text note 26. FDIC is the Federal Deposit Insurance Corporation.

shore up the DIF. This prepayment was not considered to be noninterest expense for 2009, but rather was booked as a prepaid asset to be expensed smoothly over the next three years. According to the FDIC, these prepayments totaled $46 billion for all FDIC-insured institutions. Banks were able to reduce expenses in other noninterest categories, which include data processing expenses, advertising and marketing costs, and other items.[27]

International Operations of U.S. Commercial Banks

The share of U.S. bank assets booked in foreign offices edged down from about 12½ percent at year-end 2008 to just less than 12¼ percent at year-end 2009. Assets booked abroad remained highly concentrated among the largest banks. Commercial banks returned to profitability on their international operations in 2009, though losses were reported on domestic operations for the first time since at least 1985. However, profits at foreign offices would have been negative and those at domestic offices positive, as was the case in 2008, had there not been a large reduction in internal allocations of income and expense applicable to foreign offices at one large bank. Before such allocations and restructuring activity for the industry as a whole, net income from foreign offices as a percentage of average assets booked in foreign offices remained about the same as in 2008. More specifically, large increases in provisioning for loans and leases held at banks' foreign offices and a fall in noninterest income were offset by significantly smaller noninterest expense and a return to positive realized gains in investment account securities.

Banks' total exposures to foreign economies through lending and derivatives activities increased in 2009, as two investment banks with large foreign exposures became BHCs and were added to the Federal Financial Institutions Examination Council's Country Exposure Lending Survey (table 3). Without the change in the sample of banks, such foreign exposures would have continued to decline. The vast majority of U.S. banks' cross-border lending and derivatives outstanding—in dollar terms—remained in the advanced foreign economies at the end of 2009.[28] Lending and derivatives activities outstanding in Asia were about 12 percent of total foreign exposure, or 35 percent of total tier 1 capital of the banks in the survey. Lending and derivatives exposures to the Latin American and the Caribbean regions and such exposures to a selected group of European Union countries (Greece, Ireland, Italy, Portugal, and Spain) were both about 25 percent of total tier 1 capital.

Developments in Early 2010

U.S. economic activity continued to recover in the first quarter of 2010, and financial market conditions remained broadly supportive of economic recovery.[29] In particular, household spending expanded moderately, while business spending on equipment and software rose significantly. The equity and bond markets continued to be an important source of funding for large corporations. Treasury yields, interest rates on business loans, and mortgage rates

27. Other items include amortization expense and impairment losses for intangible assets besides goodwill, as well as other noninterest expense items.

28. The advanced foreign economies include Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Israel, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, South Africa, Spain, Sweden, Switzerland, Turkey, and the United Kingdom.

29. This section reflects information available through mid-April.

3. Exposure of U.S. banks to selected economies at year-end relative to tier 1 capital, 1998–2009

Percent

Year	Asia				Latin America and the Caribbean			Eastern Europe	G-10 and Switzerland[1]	Non-G-10 developed countries[2]	Total	Memo Selected EU countries[3]
	All	China	India	Korea	All	Mexico	Brazil					
1998	28.2	1.0	2.2	7.1	42.9	9.9	11.3	3.5	182.5	37.1	294.3	29.7
2000	24.0	.8	2.6	6.4	37.9	9.1	11.2	4.4	174.6	32.8	273.7	26.9
2002	21.9	.9	2.7	5.8	38.9	20.8	8.4	5.5	172.1	21.3	259.8	23.9
2004	32.2	1.4	4.2	15.0	31.8	16.6	6.5	6.1	198.2	37.2	305.4	25.7
2006	34.7	4.1	6.1	13.6	30.8	16.8	5.7	6.5	174.7	38.5	285.1	23.2
2007	44.6	4.5	9.8	14.4	35.6	17.2	8.2	9.0	219.3	48.3	356.6	27.0
2008	30.8	3.4	6.1	10.7	25.5	12.9	5.0	5.4	166.3	35.3	263.3	20.0
2009	35.2	6.4	6.1	11.3	25.0	12.0	7.0	4.6	198.1	39.9	302.8	25.4
Memo *Total exposure (billions of dollars)*												
1998	69.1	2.3	5.4	17.3	105.0	24.1	27.6	8.5	446.3	90.8	719.6	72.5
2000	68.0	2.2	7.5	18.1	107.3	25.7	31.6	12.3	494.6	93.0	775.3	76.3
2002	69.5	2.7	8.7	18.4	123.5	66.2	26.6	17.5	546.5	67.7	824.7	75.9
2004	125.8	5.3	16.3	58.7	124.4	65.2	25.5	23.8	775.7	145.5	1,195.4	100.6
2006	190.5	22.7	33.6	74.8	168.9	92.5	31.5	35.5	959.1	211.2	1,565.2	127.1
2007	249.8	25.5	54.9	80.8	199.3	96.1	46.2	50.2	1,229.0	270.5	1,998.8	151.6
2008	217.4	24.3	43.1	75.3	179.7	90.7	35.6	37.9	1,172.9	248.6	1,856.5	141.0
2009	328.4	59.5	56.8	105.2	233.2	111.4	65.6	42.6	1,846.2	371.9	2,822.3	236.8

Note: Exposures consist of lending and derivatives exposures for cross-border and local-office operations. Respondents may file information on one bank or on the bank holding company as a whole. For the definition of tier 1 capital, see text note 21.

The 2009 data cover 69 banks (which include two large, newly formed bank holding companies) with a total of $932.1 billion in tier 1 capital. The 2008 data covered 68 banks with a total of $705.1 billion in tier 1 capital.

1. The G-10 (Group of Ten) countries are Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Sweden, and the United Kingdom.

2. The non-G-10 developed countries include Australia, Austria, Denmark, Finland, Greece, Iceland, Ireland, Israel, New Zealand, Norway, Portugal, South Africa, Spain, and Turkey.

3. The selected European Union (EU) countries consist of Greece, Ireland, Italy, Portugal, and Spain.

Source: Federal Financial Institutions Examination Council, Statistical Release E.16, "Country Exposure Lending Survey" (www.ffiec.gov/E16.htm).

remained low by historical standards, partly due to accommodative monetary policy. The Federal Open Market Committee continued to maintain a target range for the federal funds rate of 0 to ¼ percent. Financial markets showed little effect from the end of the Federal Reserve's purchases of agency mortgage-backed securities and agency debt and the expiration of most of the Federal Reserve's emergency credit facilities. However, unemployment remained elevated, investment in nonresidential structures declined further, and home sales generally remained low.

Amid tight credit conditions and reportedly weak demand, loans to both businesses and households continued to decline during the first three months of 2010. Commercial and industrial loans contracted further as spreads of interest rates on such loans over comparable-maturity market instruments climbed again in the first quarter. Commercial real estate loans also posted a substantial decline, which reflected weak investment in nonresidential structures. Residential real estate loans also ran off, likely owing importantly to greater securitizations of mortgages to the government-sponsored enterprises and sluggish home sales, while credit card balances continued to fall, perhaps partly in response to further increases in interest rates on credit cards.

Bank profitability improved significantly in the first quarter of 2010 as many banks reported tentative improvements in credit quality. In particular, the four largest bank holding companies recorded profits in the first quarter of 2010, as trading revenue and lower loss provisioning boosted earnings. Indeed, the fairly broad-based decline in loss provisioning also contributed to improved earnings at many regional banks. Nevertheless, regional and smaller banks continued to struggle with profitability as credit losses on core lending operations remained high. Moreover, failures of smaller banks continued in 2010 at about the same pace as 2009, driven largely by credit losses on commercial real estate lending. □

Appendix tables start on p. A27

A.1. Portfolio composition, interest rates, and income and expense, U.S. banks, 2000–09

A. All banks

Item	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
	Balance sheet items as a percentage of average net consolidated assets									
Interest-earning assets[1]	87.13	86.49	86.42	86.08	86.90	86.82	86.86	86.94	85.28	85.71
Loans and leases (net)	60.48	58.95	57.83	56.88	56.98	57.88	58.26	58.37	56.73	53.96
Commercial and industrial	17.16	16.08	14.07	12.18	11.06	11.17	11.42	11.84	12.08	10.77
U.S. addressees	14.67	13.69	12.04	10.48	9.52	9.64	9.73	9.86	10.12	9.20
Foreign addressees	2.49	2.39	2.04	1.70	1.54	1.53	1.70	1.98	1.96	1.57
Consumer	9.38	9.23	9.35	9.06	9.18	9.12	8.53	8.43	8.33	8.06
Credit card	3.52	3.69	3.78	3.55	3.87	4.06	3.73	3.72	3.68	3.59
Installment and other	5.87	5.55	5.57	5.51	5.31	5.06	4.80	4.71	4.65	4.47
Real estate	27.04	27.10	28.39	29.91	30.77	32.40	33.19	33.37	31.96	32.02
In domestic offices	26.49	26.60	27.91	29.45	30.24	31.84	32.61	32.76	31.35	31.50
Construction and land development	2.51	2.85	2.98	2.99	3.26	3.90	4.73	5.05	4.73	3.99
Farmland	.56	.55	.56	.54	.54	.54	.53	.53	.52	.55
One- to four-family residential	14.96	14.67	15.40	16.96	17.42	18.26	18.23	18.31	17.29	17.59
Home equity	1.96	2.18	2.80	3.40	4.34	4.95	4.71	4.49	4.60	5.07
Other	13.00	12.49	12.60	13.57	13.08	13.31	13.51	13.82	12.70	12.52
Multifamily residential	.99	.97	1.02	1.05	1.06	1.08	1.06	1.04	1.10	1.30
Nonfarm nonresidential	7.48	7.56	7.95	7.91	7.97	8.06	8.07	7.84	7.70	8.07
In foreign offices	.54	.50	.48	.46	.53	.56	.58	.60	.61	.53
To depository institutions and acceptances of other banks	1.87	1.83	1.87	1.98	2.11	1.73	1.65	1.21	1.19	1.01
Foreign governments	.12	.10	.09	.08	.08	.06	.04	.03	.02	.02
Agricultural production	.78	.75	.70	.63	.59	.56	.55	.52	.49	.49
Other loans	2.58	2.34	2.06	2.00	2.35	2.09	2.19	2.48	2.64	2.26
Lease-financing receivables	2.63	2.58	2.44	2.11	1.79	1.58	1.43	1.23	1.07	.94
LESS: Unearned income on loans	–.05	–.04	–.05	–.04	–.04	–.03	–.03	–.02	–.02	–.02
LESS: Loss reserves[2]	–1.02	–1.04	–1.11	–1.03	–.91	–.79	–.71	–.70	–1.03	–1.58
Securities	20.02	19.53	21.27	21.90	22.57	22.04	21.32	20.77	19.27	20.39
Investment account	17.59	16.82	18.30	18.97	18.99	17.87	16.89	15.41	14.13	16.62
Debt	16.93	16.48	17.99	18.72	18.79	17.71	16.73	15.23	13.95	16.36
U.S. Treasury	1.66	.85	.78	.90	.89	.62	.47	.32	.24	.52
U.S. government agency and corporation obligations	10.31	10.08	11.46	12.26	12.37	11.51	10.65	9.32	8.14	9.32
Government-backed mortgage pools	4.75	5.13	6.09	6.75	7.13	6.78	6.43	5.82	5.47	6.14
Collateralized mortgage obligations	1.92	1.95	2.35	2.34	2.01	1.80	1.58	1.34	1.27	1.52
Other	3.63	2.99	3.02	3.17	3.22	2.93	2.65	2.16	1.40	1.66
State and local government	1.52	1.49	1.49	1.48	1.41	1.36	1.34	1.34	1.20	1.27
Private mortgage-backed securities	.95	1.09	1.25	1.30	1.41	1.76	1.89	2.15	2.10	1.88
Other	2.48	2.98	3.01	2.78	2.72	2.47	2.37	2.10	2.28	3.36
Equity	.66	.34	.31	.25	.20	.16	.16	.18	.18	.26
Trading account	2.43	2.72	2.97	2.93	3.59	4.17	4.43	5.36	5.13	3.77
Gross federal funds sold and reverse RPs	4.12	5.11	4.81	4.85	4.58	4.75	5.30	5.49	6.03	4.54
Balances at depositories[1]	2.52	2.90	2.52	2.46	2.76	2.14	1.98	2.30	3.25	6.82
Noninterest-earning assets[1]	12.87	13.51	13.58	13.92	13.10	13.18	13.14	13.06	14.72	14.29
Revaluation gains held in trading accounts	2.28	2.37	2.42	2.70	2.19	1.82	1.64	1.73	2.83	2.78
Other	10.58	11.14	11.16	11.22	10.91	11.36	11.51	11.33	11.90	11.51
Liabilities	91.58	91.25	90.85	90.96	90.57	89.91	89.84	89.78	90.07	89.50
Core deposits	46.52	47.07	48.98	49.18	48.56	47.52	45.56	43.89	42.72	46.92
Transaction deposits	11.07	10.36	10.06	9.73	9.10	8.46	7.45	6.43	6.16	6.90
Demand deposits	8.61	8.00	7.67	7.26	6.58	6.16	5.41	4.66	4.53	5.06
Other checkable deposits	2.46	2.36	2.39	2.47	2.52	2.30	2.04	1.77	1.63	1.84
Savings deposits (including MMDAs)	22.43	24.53	28.13	30.12	31.19	30.83	29.49	28.21	27.04	29.98
Small time deposits	13.01	12.18	10.80	9.33	8.27	8.23	8.62	9.26	9.51	10.04
Managed liabilities[3]	38.83	37.42	35.05	34.61	35.69	36.25	38.29	39.85	41.08	37.09
Large time deposits	8.77	8.89	8.30	8.09	8.00	9.11	10.07	9.13	9.13	8.32
Deposits booked in foreign offices	11.43	10.66	9.42	9.38	10.25	10.39	11.18	12.81	13.09	12.56
Subordinated notes and debentures	1.37	1.43	1.40	1.33	1.30	1.34	1.40	1.55	1.51	1.39
Gross federal funds purchased and RPs	7.83	7.95	7.77	7.75	7.24	7.05	7.53	7.06	6.98	6.05
Other managed liabilities	9.44	8.49	8.16	8.06	8.91	8.37	8.11	9.31	10.38	8.77
Revaluation losses held in trading accounts	2.29	2.21	2.09	2.30	1.95	1.67	1.51	1.59	2.27	1.98
Other	3.94	4.54	4.73	4.87	4.36	4.47	4.47	4.44	4.01	3.51
Capital account	8.42	8.75	9.15	9.04	9.43	10.09	10.16	10.22	9.93	10.50
MEMO										
Commercial real estate loans[4]	11.58	12.09	12.57	12.47	12.78	13.52	14.35	14.47	14.10	13.91
Other real estate owned[5]	.05	.05	.06	.06	.06	.04	.05	.07	.13	.28
Mortgage-backed securities	7.63	8.17	9.69	10.39	10.56	10.33	9.89	9.31	8.84	9.55
Federal Home Loan Bank advances	n.a.	2.89	3.17	3.19	3.07	3.04	3.07	3.66	4.45	3.77
Balances at the Federal Reserve[1]	.42	.40	.38	.40	.35	.29	.24	.20	3.44	4.14
Interest-earning	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3.00	4.14
Noninterest-earning	.42	.40	.38	.40	.35	.29	.24	.20	.44	n.a.
Interest-earning balances at depositories other than the Federal Reserve	2.52	2.90	2.52	2.46	2.76	2.14	1.98	2.30	2.69	2.68
Average net consolidated assets (billions of dollars)	5,907	6,334	6,635	7,249	7,879	8,592	9,427	10,396	11,578	11,869

A.1. Portfolio composition, interest rates, and income and expense, U.S. banks, 2000–09—*Continued*

A. All banks—*Continued*

Item	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
	Effective interest rate (percent)[6]									
Rates earned										
Interest-earning assets	8.20	7.37	6.10	5.29	5.08	5.70	6.65	6.78	5.72	4.62
Taxable equivalent	8.26	7.42	6.15	5.33	5.12	5.73	6.69	6.82	5.74	4.64
Loans and leases, gross	9.00	8.15	6.89	6.15	5.91	6.52	7.55	7.54	6.39	5.54
Net of loss provisions	8.33	7.15	5.84	5.47	5.47	6.09	7.18	6.69	3.90	2.10
Securities	6.47	6.04	4.95	3.96	3.86	4.18	4.71	5.02	4.86	4.15
Taxable equivalent	6.65	6.22	5.10	4.10	3.99	4.30	4.83	5.14	4.94	4.23
Investment account	6.45	6.05	5.04	4.00	3.96	4.29	4.86	5.13	4.93	4.31
U.S. Treasury securities and U.S. government agency obligations (excluding MBS)	n.a.	5.76	4.42	3.29	3.11	3.46	4.19	4.71	4.23	2.78
Mortgage-backed securities	n.a.	6.45	5.44	4.24	4.38	4.60	5.10	5.29	5.21	4.86
Other	n.a.	5.60	4.74	4.08	3.76	4.23	4.76	5.02	4.58	3.94
Trading account	6.63	6.01	4.38	3.71	3.35	3.72	4.16	4.70	4.64	3.44
Gross federal funds sold and reverse RPs	5.56	3.86	1.93	1.40	1.40	2.66	4.31	5.07	2.50	.64
Interest-bearing balances at depositories[1]	6.48	4.01	2.79	2.09	1.98	3.70	5.10	5.13	3.23	.68
Rates paid										
Interest-bearing liabilities	4.94	3.93	2.38	1.72	1.63	2.47	3.59	3.82	2.53	1.30
Interest-bearing deposits	4.45	3.61	2.11	1.47	1.36	2.06	3.05	3.39	2.26	1.14
In foreign offices	5.61	3.94	2.38	1.62	1.72	2.77	3.92	4.23	2.47	.69
In domestic offices	4.17	3.54	2.06	1.44	1.29	1.91	2.85	3.18	2.20	1.25
Other checkable deposits	2.34	1.96	1.06	.75	.77	1.41	1.88	2.04	1.16	.60
Savings deposits (including MMDAs)	2.86	2.19	1.13	.74	.72	1.24	2.01	2.22	1.24	.50
Large time deposits	5.78	5.04	3.37	2.59	2.35	3.19	4.39	4.71	3.48	2.22
Other time deposits	5.69	5.43	3.70	2.88	2.56	3.14	4.11	4.72	3.83	2.79
Gross federal funds purchased and RPs	5.77	3.83	1.88	1.30	1.49	3.07	4.57	4.97	2.39	.62
Other interest-bearing liabilities	6.97	5.91	4.49	3.69	3.34	4.58	6.29	5.46	4.05	2.74
	Income and expense as a percentage of average net consolidated assets									
Gross interest income	7.18	6.38	5.27	4.54	4.43	4.97	5.85	5.94	4.88	4.05
Taxable equivalent	7.22	6.42	5.31	4.58	4.46	5.00	5.88	5.97	4.91	4.07
Loans	5.53	4.92	4.06	3.55	3.42	3.82	4.48	4.47	3.68	3.10
Securities	1.15	1.00	.89	.74	.74	.77	.84	.80	.70	.72
Gross federal funds sold and reverse RPs	.23	.20	.09	.07	.07	.13	.23	.28	.14	.03
Other	.27	.27	.22	.18	.20	.25	.31	.39	.35	.20
Gross interest expense	3.76	2.98	1.79	1.30	1.25	1.89	2.79	2.99	1.96	1.03
Deposits	2.56	2.09	1.23	.86	.81	1.23	1.84	2.05	1.33	.71
Gross federal funds purchased and RPs	.45	.31	.15	.10	.11	.22	.36	.36	.17	.04
Other	.75	.58	.41	.33	.33	.44	.59	.58	.45	.28
Net interest income	3.41	3.40	3.48	3.24	3.17	3.07	3.05	2.95	2.93	3.02
Taxable equivalent	3.46	3.44	3.52	3.28	3.21	3.11	3.09	2.98	2.95	3.05
Loss provisions[7]	.50	.68	.68	.45	.30	.30	.27	.55	1.48	1.95
Noninterest income	2.59	2.54	2.54	2.54	2.40	2.35	2.36	2.10	1.81	2.07
Service charges on deposits	.40	.42	.45	.44	.42	.39	.38	.38	.37	.35
Fiduciary activities	.38	.35	.32	.31	.32	.31	.30	.32	.28	.23
Trading revenue	.21	.20	.16	.16	.13	.17	.20	.05	–.01	.20
Interest rate exposures	.08	.09	.08	.07	.03	.05	.05	.04	–.01	.12
Foreign exchange rate exposures	.08	.07	.07	.07	.07	.07	.08	.07	.09	.04
Other commodity and equity exposures	.04	.03	.01	.02	.03	.04	.07	.03	.01	.02
Credit exposures	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	–.09	–.11	.01
Other	1.61	1.57	1.60	1.63	1.53	1.48	1.48	1.36	1.16	1.30
Noninterest expense	3.66	3.57	3.47	3.36	3.34	3.19	3.13	3.09	3.09	3.00
Salaries, wages, and employee benefits	1.51	1.49	1.51	1.50	1.46	1.44	1.44	1.39	1.27	1.28
Occupancy	.45	.44	.44	.43	.42	.41	.39	.37	.35	.35
Other	1.70	1.64	1.51	1.43	1.46	1.34	1.30	1.33	1.46	1.37
Net noninterest expense	1.07	1.03	.93	.82	.94	.84	.76	.99	1.28	.93
Gains on investment account securities	–.04	.07	.10	.08	.04	*	–.01	–.01	–.14	–.01
Income before taxes and extraordinary items	1.81	1.77	1.96	2.05	1.97	1.93	2.00	1.41	.03	.12
Taxes	.63	.59	.65	.67	.64	.62	.65	.43	.02	.04
Extraordinary items, net of income taxes	*	–.01	*	.01	*	*	.03	–.02	.05	–.03
Net income	1.18	1.17	1.32	1.39	1.33	1.31	1.39	.97	.05	.04
Cash dividends declared	.89	.87	1.01	1.07	.76	.75	.87	.82	.37	.37
Retained income	.29	.31	.30	.31	.58	.56	.51	.15	–.32	–.32
MEMO: Return on equity	13.97	13.41	14.38	15.34	14.14	12.99	13.65	9.45	.54	.42

NOTE: Data are as of March 23, 2010.

1. Effective October 1, 2008, the Federal Reserve began paying interest on depository institutions' required and excess reserve balances. Beginning with the 2008:Q4 Call Report, balances due from Federal Reserve Banks are now reported under "Interest-earning assets" rather than "Noninterest-earning assets."

2. Includes allocated transfer risk reserve.

3. Measured as the sum of large time deposits in domestic offices, deposits booked in foreign offices, subordinated notes and debentures, federal funds purchased and securities sold under repurchase agreements, Federal Home Loan Bank advances, and other borrowed money.

4. Measured as the sum of construction and land development loans secured by real estate; real estate loans secured by nonfarm nonresidential properties or by multifamily residential properties; and loans to finance commercial real estate, construction, and land development activities not secured by real estate.

5. Other real estate owned is a component of other noninterest-earning assets.

6. When possible, based on the average of quarterly balance sheet data reported on schedule RC-K of the quarterly Call Report.

7. Includes provisions for allocated transfer risk.

* In absolute value, less than 0.005 percent.

n.a. Not available.

MMDA Money market deposit account.

RP Repurchase agreement.

MBS Mortgage-backed securities.

A.1. Portfolio composition, interest rates, and income and expense, U.S. banks, 2000–09

B. Ten largest banks by assets

Item	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
	Balance sheet items as a percentage of average net consolidated assets									
Interest-earning assets[1]	82.23	81.74	81.68	81.39	83.54	83.96	84.68	85.03	83.05	83.54
Loans and leases (net)	55.22	53.86	53.61	52.20	51.29	51.35	52.03	53.21	50.66	46.99
Commercial and industrial	19.87	18.82	16.16	12.98	10.54	10.61	11.20	11.58	11.85	10.21
U.S. addressees	13.95	13.42	11.69	9.40	7.49	7.74	8.08	8.05	8.45	7.52
Foreign addressees	5.92	5.41	4.47	3.59	3.06	2.87	3.12	3.53	3.40	2.69
Consumer	5.43	6.17	7.82	7.96	8.49	8.80	8.17	8.98	8.43	6.83
Credit card	1.34	1.69	2.90	2.81	3.19	3.60	3.05	3.87	3.54	2.16
Installment and other	4.09	4.48	4.92	5.15	5.30	5.21	5.13	5.11	4.89	4.67
Real estate	19.82	19.23	20.78	22.68	23.21	24.55	25.51	27.04	25.26	26.23
In domestic offices	18.48	18.05	19.70	21.74	22.21	23.52	24.50	26.00	24.29	25.39
Construction and land development	.98	1.27	1.42	1.36	1.40	1.70	2.01	2.01	1.86	1.87
Farmland	.11	.11	.12	.10	.10	.10	.10	.09	.09	.09
One- to four-family residential	13.37	12.41	13.51	16.03	16.71	17.73	18.30	19.86	18.40	18.95
Home equity	1.61	1.78	2.35	2.96	4.04	5.22	5.40	5.46	5.59	6.26
Other	11.76	10.63	11.17	13.07	12.67	12.52	12.90	14.40	12.81	12.69
Multifamily residential	.60	.51	.55	.47	.45	.44	.44	.55	.69	1.00
Nonfarm nonresidential	3.42	3.76	4.09	3.78	3.55	3.55	3.65	3.49	3.25	3.48
In foreign offices	1.34	1.18	1.08	.94	1.00	1.03	1.01	1.03	.97	.84
To depository institutions and acceptances of other banks	3.78	3.23	3.20	3.54	4.10	3.15	2.97	1.71	1.67	1.27
Foreign governments	.28	.20	.20	.17	.16	.12	.07	.05	.02	.03
Agricultural production	.23	.28	.23	.19	.22	.20	.20	.17	.15	.16
Other loans	3.75	3.51	2.94	2.87	3.32	2.81	2.88	3.08	3.21	2.78
Lease-financing receivables	3.07	3.43	3.44	2.87	2.08	1.78	1.60	1.22	1.06	.93
LESS: Unearned income on loans	–.04	–.04	–.08	–.06	–.04	–.04	–.02	–.02	–.02	–.02
LESS: Loss reserves[2]	–.97	–.97	–1.12	–1.00	–.79	–.65	–.56	–.60	–.98	–1.45
Securities	18.98	17.81	20.54	21.22	22.95	23.37	23.05	21.97	20.97	22.27
Investment account	13.71	12.14	14.35	15.31	15.99	15.58	15.12	12.81	12.44	16.56
Debt	13.03	11.88	14.13	15.11	15.83	15.44	14.97	12.66	12.32	16.40
U.S. Treasury	1.96	.68	.59	.82	.86	.56	.43	.24	.16	.51
U.S. government agency and corporation obligations	6.59	6.84	8.69	9.20	9.92	9.69	9.48	8.02	6.95	8.67
Government-backed mortgage pools	4.88	4.99	6.38	7.59	8.64	8.65	8.64	7.53	6.48	7.25
Collateralized mortgage obligations	.93	1.11	1.52	.91	.70	.54	.53	.33	.38	.66
Other	.78	.74	.79	.70	.58	.50	.32	.16	.09	.75
State and local government	.51	.55	.59	.59	.57	.58	.64	.65	.55	.68
Private mortgage-backed securities	.51	.58	.92	1.10	.96	1.18	1.09	1.45	2.01	2.35
Other	3.47	3.22	3.34	3.40	3.52	3.43	3.33	2.30	2.66	4.19
Equity	.68	.26	.22	.20	.16	.14	.15	.16	.12	.16
Trading account	5.26	5.67	6.18	5.91	6.96	7.79	7.94	9.16	8.52	5.70
Gross federal funds sold and reverse RPs	5.02	6.38	5.26	5.79	6.37	6.96	7.60	7.47	8.13	6.53
Balances at depositories[1]	3.01	3.69	2.28	2.18	2.93	2.28	1.99	2.38	3.28	7.76
Noninterest-earning assets[1]	17.77	18.26	18.32	18.61	16.46	16.04	15.32	14.97	16.95	16.46
Revaluation gains held in trading accounts	5.66	5.48	5.40	5.79	4.45	3.50	3.07	3.03	4.77	4.47
Other	12.11	12.78	12.93	12.83	12.01	12.54	12.25	11.93	12.18	11.98
Liabilities	92.36	92.14	91.52	91.94	91.64	90.81	91.10	90.82	91.34	90.78
Core deposits	33.28	36.38	40.61	41.07	42.02	40.18	38.03	35.08	34.49	39.62
Transaction deposits	8.01	8.40	8.34	7.74	6.65	6.05	5.41	4.69	4.73	5.80
Demand deposits	7.28	7.50	7.40	6.72	5.43	4.90	4.32	3.80	3.91	4.84
Other checkable deposits	.74	.90	.95	1.02	1.22	1.15	1.09	.89	.81	.96
Savings deposits (including MMDAs)	19.24	22.21	26.82	28.99	31.54	30.11	28.11	25.55	24.59	28.41
Small time deposits	6.03	5.77	5.44	4.34	3.83	4.02	4.52	4.84	5.18	5.41
Managed liabilities[3]	46.84	43.41	38.89	38.60	39.33	40.83	43.75	46.83	47.69	43.51
Large time deposits	5.55	5.46	5.13	5.53	5.21	6.28	6.85	6.13	6.72	6.11
Deposits booked in foreign offices	22.76	20.28	17.31	16.62	17.20	17.51	18.50	19.86	20.16	20.25
Subordinated notes and debentures	2.10	2.16	2.11	1.92	1.78	1.89	1.99	2.17	2.09	1.87
Gross federal funds purchased and RPs	8.89	9.04	8.83	8.62	7.79	8.39	9.51	8.42	8.18	6.79
Other managed liabilities	7.55	6.47	5.53	5.90	7.35	6.76	6.89	10.26	10.54	8.48
Revaluation losses held in trading accounts	5.69	5.10	4.63	4.88	3.95	3.21	2.83	2.79	3.77	3.12
Other	6.55	7.26	7.39	7.40	6.34	6.60	6.47	6.12	5.39	4.53
Capital account	7.64	7.86	8.48	8.06	8.36	9.19	8.90	9.18	8.66	9.22
MEMO										
Commercial real estate loans[4]	5.87	6.68	6.92	6.31	5.99	6.33	6.73	6.64	6.37	6.92
Other real estate owned[5]	.04	.04	.03	.03	.03	.02	.03	.05	.09	.19
Mortgage-backed securities	6.32	6.68	8.82	9.60	10.30	10.36	10.25	9.31	8.87	10.27
Federal Home Loan Bank advances	n.a.	.82	.82	.84	.79	.63	.75	2.33	2.81	2.64
Balances at the Federal Reserve[1]	.20	.27	.23	.23	.25	.21	.17	.15	3.92	4.29
Interest-earning	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3.61	4.29
Noninterest-earning	.20	.27	.23	.23	.25	.21	.17	.15	.32	n.a.
Interest-earning balances at depositories other than the Federal Reserve	3.01	3.69	2.28	2.18	2.93	2.28	1.99	2.38	2.69	3.46
Average net consolidated assets (billions of dollars)	2,234	2,527	2,785	3,148	3,654	4,232	4,759	5,469	6,241	6,379

A.1. Portfolio composition, interest rates, and income and expense, U.S. banks, 2000–09—*Continued*

B. Ten largest banks by assets—*Continued*

Item	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
	Effective interest rate (percent)[6]									
Rates earned										
Interest-earning assets	7.76	6.83	5.82	4.99	4.71	5.29	6.32	6.52	5.44	4.08
Taxable equivalent	7.78	6.86	5.85	5.01	4.73	5.31	6.34	6.54	5.45	4.10
Loans and leases, gross	8.46	7.50	6.52	5.76	5.52	6.15	7.36	7.33	6.14	5.00
Net of loss provisions	7.92	6.55	5.30	5.19	5.29	5.84	7.02	6.29	3.23	1.55
Securities	6.48	6.23	5.04	4.15	4.04	4.27	4.69	4.99	4.93	4.20
Taxable equivalent	6.55	6.31	5.11	4.21	4.10	4.32	4.75	5.04	4.95	4.24
Investment account	6.40	6.23	5.30	4.26	4.37	4.63	5.11	5.29	5.14	4.50
U.S. Treasury securities and U.S. government agency obligations (excluding MBS)	n.a.	5.01	3.74	2.62	2.92	3.29	4.15	4.15	3.02	2.61
Mortgage-backed securities	n.a.	6.42	5.55	4.51	4.83	4.92	5.30	5.41	5.34	4.94
Other	n.a.	6.34	5.30	4.28	3.76	4.26	4.81	5.08	4.77	4.09
Trading account	6.70	6.24	4.46	3.87	3.32	3.57	3.90	4.57	4.59	3.36
Gross federal funds sold and reverse RPs	4.93	3.86	2.20	1.60	1.43	2.46	4.07	5.06	2.59	.72
Interest-bearing balances at depositories[1]	7.43	3.73	3.40	2.49	1.80	4.06	5.59	5.36	3.46	.72
Rates paid										
Interest-bearing liabilities	5.03	3.78	2.33	1.67	1.62	2.52	3.74	3.87	2.47	1.04
Interest-bearing deposits	4.40	3.27	1.94	1.34	1.29	2.01	2.96	3.30	2.08	.79
In foreign offices	5.67	4.02	2.59	1.74	1.81	2.77	3.88	4.28	2.52	.74
In domestic offices	3.51	2.84	1.67	1.18	1.08	1.70	2.55	2.80	1.85	.82
Other checkable deposits	1.61	1.67	.93	.80	.97	2.27	2.46	2.36	1.13	.47
Savings deposits (including MMDAs)	2.43	1.92	1.02	.73	.71	1.15	1.87	1.98	1.10	.36
Large time deposits	5.32	4.40	3.26	2.36	2.14	3.06	4.32	4.72	3.33	1.60
Other time deposits	5.53	5.11	3.44	2.70	2.61	3.40	4.05	4.55	3.48	2.41
Gross federal funds purchased and RPs	5.47	3.81	2.02	1.39	1.59	3.11	4.63	5.15	2.54	.54
Other interest-bearing liabilities	8.07	6.84	5.57	4.42	3.83	5.40	7.78	5.61	4.32	2.80
	Income and expense as a percentage of average net consolidated assets									
Gross interest income	6.39	5.55	4.77	4.05	3.94	4.47	5.46	5.61	4.52	3.53
Taxable equivalent	6.41	5.57	4.79	4.07	3.96	4.48	5.48	5.63	4.53	3.54
Loans	4.74	4.13	3.57	3.04	2.86	3.19	3.91	3.98	3.15	2.45
Securities	.88	.72	.73	.63	.69	.72	.80	.69	.65	.75
Gross federal funds sold and reverse RPs	.25	.25	.12	.10	.10	.18	.31	.38	.20	.05
Other	.51	.44	.35	.28	.30	.38	.45	.56	.51	.27
Gross interest expense	3.60	2.69	1.65	1.19	1.20	1.89	2.88	3.00	1.88	.82
Deposits	2.33	1.74	1.05	.74	.74	1.17	1.72	1.87	1.17	.48
Gross federal funds purchased and RPs	.49	.35	.18	.13	.13	.27	.47	.46	.21	.04
Other	.78	.59	.41	.33	.33	.45	.69	.68	.50	.29
Net interest income	2.78	2.87	3.12	2.86	2.74	2.58	2.58	2.61	2.63	2.71
Taxable equivalent	2.80	2.89	3.14	2.88	2.76	2.59	2.60	2.63	2.65	2.73
Loss provisions[7]	.38	.59	.73	.35	.16	.20	.22	.60	1.52	1.71
Noninterest income	2.54	2.26	2.31	2.32	2.21	2.37	2.35	1.95	1.66	2.17
Service charges on deposits	.40	.44	.48	.46	.45	.42	.41	.40	.40	.37
Fiduciary activities	.27	.29	.25	.26	.24	.27	.23	.20	.21	.21
Trading revenue	.48	.43	.32	.30	.23	.31	.37	.05	–.01	.23
Interest rate exposures	.20	.20	.15	.12	.07	.11	.09	.08	–.01	.13
Foreign exchange rate exposures	.18	.14	.14	.14	.12	.12	.14	.09	.13	.09
Other commodity and equity exposures	.11	.08	.03	.04	.04	.07	.13	.06	.03	.04
Credit exposures	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	–.18	–.17	–.03
Other	1.39	1.10	1.26	1.30	1.28	1.38	1.35	1.31	1.07	1.36
Noninterest expense	3.31	3.13	3.16	3.02	3.11	2.99	2.89	2.80	2.71	2.71
Salaries, wages, and employee benefits	1.46	1.38	1.41	1.39	1.34	1.38	1.39	1.32	1.20	1.28
Occupancy	.47	.45	.46	.45	.43	.43	.40	.37	.35	.36
Other	1.39	1.30	1.28	1.18	1.33	1.19	1.09	1.12	1.17	1.08
Net noninterest expense	.77	.87	.85	.70	.91	.62	.54	.85	1.05	.55
Gains on investment account securities	–.03	.08	.13	.11	.07	*	–.01	.02	–.05	–.03
Income before taxes and extraordinary items	1.60	1.48	1.67	1.92	1.74	1.75	1.82	1.18	*	.42
Taxes	.60	.49	.56	.63	.56	.57	.59	.33	–.07	.06
Extraordinary items, net of income taxes	*	–.01	*	*	*	*	.02	*	.09	*
Net income	1.00	.99	1.11	1.29	1.18	1.18	1.25	.85	.16	.35
Cash dividends declared	.86	.66	1.05	.99	.65	.59	.64	.60	.28	.47
Retained income	.13	.32	.06	.30	.53	.59	.62	.25	–.11	–.11
Memo: Return on equity	13.04	12.55	13.14	16.06	14.07	12.86	14.08	9.23	1.89	3.81

NOTE: Data are as of March 23, 2010.

1. Effective October 1, 2008, the Federal Reserve began paying interest on depository institutions' required and excess reserve balances. Beginning with the 2008:Q4 Call Report, balances due from Federal Reserve Banks are now reported under "Interest-earning assets" rather than "Noninterest-earning assets."

2. Includes allocated transfer risk reserve.

3. Measured as the sum of large time deposits in domestic offices, deposits booked in foreign offices, subordinated notes and debentures, federal funds purchased and securities sold under repurchase agreements, Federal Home Loan Bank advances, and other borrowed money.

4. Measured as the sum of construction and land development loans secured by real estate; real estate loans secured by nonfarm nonresidential properties or by multifamily residential properties; and loans to finance commercial real estate, construction, and land development activities not secured by real estate.

5. Other real estate owned is a component of other noninterest-earning assets.

6. When possible, based on the average of quarterly balance sheet data reported on schedule RC-K of the quarterly Call Report.

7. Includes provisions for allocated transfer risk.

* In absolute value, less than 0.005 percent.

n.a. Not available.

MMDA Money market deposit account.

RP Repurchase agreement.

MBS Mortgage-backed securities.

A.1. Portfolio composition, interest rates, and income and expense, U.S. banks, 2000–09

C. Banks ranked 11 through 100 by assets

Item	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
	Balance sheet items as a percentage of average net consolidated assets									
Interest-earning assets[1]	88.67	88.09	88.34	88.10	88.18	87.87	87.05	87.01	85.34	85.84
Loans and leases (net)	64.88	62.14	60.00	59.48	60.63	63.37	62.77	60.99	60.04	58.58
Commercial and industrial	18.19	15.84	13.27	11.96	11.90	12.17	12.13	12.74	12.79	11.88
U.S. addressees	17.64	15.36	12.94	11.66	11.64	11.91	11.81	12.41	12.46	11.53
Foreign addressees	.55	.48	.33	.30	.26	.27	.32	.33	.34	.35
Consumer	13.79	13.20	12.79	12.57	12.74	12.84	11.94	9.99	10.61	12.96
Credit card	6.97	7.05	6.56	6.35	6.90	7.45	7.12	5.29	5.67	8.20
Installment and other	6.82	6.15	6.22	6.21	5.83	5.39	4.82	4.70	4.94	4.76
Real estate	26.21	27.29	28.94	30.67	32.16	34.89	35.23	33.53	32.50	31.21
In domestic offices	26.12	27.21	28.88	30.54	31.96	34.73	35.03	33.35	32.19	30.93
Construction and land development	3.00	3.31	3.36	3.22	3.51	4.21	5.27	5.95	5.65	4.45
Farmland	.22	.23	.22	.20	.19	.19	.17	.21	.26	.28
One- to four-family residential	14.51	15.51	17.05	18.79	19.52	21.05	20.27	17.80	16.57	16.19
Home equity	2.49	2.90	3.92	4.74	5.90	6.04	5.01	4.01	3.90	4.17
Other	12.02	12.60	13.13	14.05	13.62	15.01	15.26	13.79	12.67	12.02
Multifamily residential	1.11	1.16	1.20	1.32	1.34	1.45	1.45	1.27	1.25	1.31
Nonfarm nonresidential	7.28	6.99	7.05	7.00	7.41	7.83	7.86	8.13	8.47	8.71
In foreign offices	.09	.09	.06	.13	.20	.16	.21	.18	.31	.28
To depository institutions and acceptances of other banks	1.05	1.40	1.44	1.21	.54	.56	.45	1.05	.94	1.07
Foreign governments	.03	.03	.02	.02	.01	.02	.01	.01	.03	.01
Agricultural production	.37	.32	.27	.23	.19	.19	.18	.21	.23	.22
Other loans	2.57	2.03	1.80	1.59	1.87	1.62	1.88	2.43	2.56	1.98
Lease-financing receivables	3.82	3.18	2.65	2.35	2.30	2.07	1.83	1.80	1.50	1.31
LESS: Unearned income on loans	–.03	–.02	–.02	–.02	–.02	–.01	–.01	–.01	–.01	–.01
LESS: Loss reserves[2]	–1.12	–1.13	–1.17	–1.10	–1.06	–.97	–.87	–.75	–1.12	–2.05
Securities	17.32	19.00	20.30	21.16	21.28	19.96	19.22	19.89	16.88	18.31
Investment account	16.10	17.71	19.17	20.09	20.12	18.80	17.72	17.99	14.99	15.80
Debt	15.50	17.32	18.82	19.88	19.96	18.69	17.60	17.88	14.84	15.41
U.S. Treasury	1.12	.67	.74	.95	.89	.60	.44	.38	.31	.58
U.S. government agency and corporation obligations	9.70	10.09	11.45	12.99	12.80	11.62	10.07	9.06	7.72	8.66
Government-backed mortgage pools	4.31	5.19	6.00	6.08	5.74	4.83	4.04	3.73	3.76	4.56
Collateralized mortgage obligations	2.55	2.42	2.79	3.72	3.42	3.39	2.94	2.68	2.43	2.59
Other	2.84	2.48	2.65	3.19	3.64	3.40	3.10	2.65	1.54	1.51
State and local government	.96	.99	.97	.95	.96	.98	1.01	1.16	1.03	.89
Private mortgage-backed securities	1.66	2.01	2.13	2.14	2.65	3.58	4.29	4.60	3.23	1.78
Other	2.06	3.56	3.53	2.85	2.66	1.90	1.78	2.67	2.54	3.50
Equity	.60	.39	.34	.21	.16	.11	.12	.12	.14	.39
Trading account	1.22	1.29	1.13	1.07	1.16	1.16	1.50	1.90	1.89	2.52
Gross federal funds sold and reverse RPs	3.76	4.06	4.71	4.20	2.98	2.30	2.84	3.41	4.27	2.46
Balances at depositories[1]	2.71	2.88	3.33	3.26	3.29	2.24	2.22	2.72	4.16	6.48
Noninterest-earning assets[1]	11.33	11.91	11.66	11.90	11.82	12.13	12.95	12.99	14.66	14.16
Revaluation gains held in trading accounts	.40	.55	.47	.60	.42	.33	.30	.48	.91	1.36
Other	10.92	11.37	11.19	11.30	11.40	11.80	12.65	12.51	13.75	12.80
Liabilities	91.57	91.15	90.79	90.65	89.87	88.86	88.08	88.40	88.17	87.01
Core deposits	46.28	46.28	47.07	47.93	46.55	48.18	46.84	47.44	46.35	50.91
Transaction deposits	9.93	8.37	7.49	7.29	7.06	6.64	5.74	5.15	5.13	5.44
Demand deposits	8.61	7.17	6.32	5.96	5.65	5.35	4.54	3.90	3.89	3.98
Other checkable deposits	1.32	1.20	1.17	1.33	1.41	1.29	1.20	1.25	1.24	1.46
Savings deposits (including MMDAs)	24.02	26.62	30.07	32.34	31.75	33.33	32.66	32.99	31.50	34.24
Small time deposits	12.33	11.28	9.51	8.30	7.74	8.20	8.44	9.30	9.71	11.23
Managed liabilities[3]	41.98	40.81	39.48	38.12	39.29	37.04	37.60	37.02	37.82	32.01
Large time deposits	9.54	9.72	8.99	8.20	8.76	10.10	11.44	10.20	9.76	7.28
Deposits booked in foreign offices	7.56	7.05	6.28	6.54	7.21	6.02	6.43	8.52	7.80	5.78
Subordinated notes and debentures	1.54	1.53	1.44	1.38	1.39	1.31	1.32	1.40	1.31	1.32
Gross federal funds purchased and RPs	9.28	9.71	9.66	9.69	8.95	7.17	6.74	6.79	6.72	6.63
Other managed liabilities	14.07	12.79	13.11	12.30	12.97	12.44	11.66	10.10	12.23	11.00
Revaluation losses held in trading accounts	.41	.52	.44	.56	.40	.34	.29	.47	.85	1.10
Other	2.91	3.54	3.80	4.05	3.64	3.30	3.35	3.48	3.16	2.98
Capital account	8.43	8.85	9.21	9.35	10.13	11.14	11.92	11.60	11.83	12.99
MEMO										
Commercial real estate loans[4]	12.06	12.06	12.24	12.10	12.85	13.93	15.05	15.95	16.01	15.04
Other real estate owned[5]	.03	.04	.05	.06	.05	.04	.05	.06	.10	.21
Mortgage-backed securities	8.52	9.63	10.93	11.93	11.81	11.81	11.27	11.01	9.42	8.93
Federal Home Loan Bank advances	n.a.	4.07	4.85	4.75	4.65	5.19	5.54	5.35	6.45	4.82
Balances at the Federal Reserve[1]	.43	.36	.37	.37	.28	.21	.18	.19	3.89	4.73
Interest-earning	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3.18	4.73
Noninterest-earning	.43	.36	.37	.37	.28	.21	.18	.19	.72	n.a.
Interest-earning balances at depositories other than the Federal Reserve	2.71	2.88	3.33	3.26	3.29	2.24	2.22	2.72	3.43	1.75
Average net consolidated assets (billions of dollars)	2,031	2,130	2,124	2,287	2,376	2,403	2,579	2,798	3,177	3,281

A.1. Portfolio composition, interest rates, and income and expense, U.S. banks, 2000–09—*Continued*

C. Banks ranked 11 through 100 by assets—*Continued*

Item	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
	Effective interest rate (percent)[6]									
Rates earned										
Interest-earning assets	8.44	7.54	6.03	5.30	5.21	5.98	6.93	6.87	5.83	5.14
Taxable equivalent	8.48	7.58	6.07	5.33	5.24	6.02	6.97	6.91	5.85	5.16
Loans and leases, gross	9.14	8.26	6.80	6.11	5.98	6.61	7.58	7.45	6.43	6.03
Net of loss provisions	8.25	6.96	5.59	5.11	5.19	5.89	7.04	6.64	3.75	1.64
Securities	6.64	5.96	4.79	3.80	3.63	4.18	4.99	5.25	4.78	4.01
Taxable equivalent	6.77	6.08	4.91	3.90	3.73	4.29	5.10	5.37	4.86	4.06
Investment account	6.66	6.04	4.86	3.87	3.64	4.11	4.84	5.18	4.74	4.03
U.S. Treasury securities and U.S. government agency obligations (excluding MBS)	n.a.	5.83	4.28	3.17	2.94	3.47	4.28	4.85	3.92	1.95
Mortgage-backed securities	n.a.	6.60	5.34	4.20	4.02	4.34	5.02	5.23	5.02	4.76
Other	n.a.	5.13	4.22	3.61	3.29	4.06	4.87	5.28	4.42	3.56
Trading account	6.25	4.83	3.59	2.56	3.39	5.30	6.74	5.94	5.06	3.87
Gross federal funds sold and reverse RPs	6.06	3.86	1.68	1.14	1.25	3.24	4.95	5.16	2.29	.38
Interest-bearing balances at depositories[1]	5.49	4.38	2.46	1.93	2.27	3.20	4.24	4.84	2.97	.54
Rates paid										
Interest-bearing liabilities	4.97	3.94	2.22	1.61	1.56	2.44	3.48	3.72	2.38	1.34
Interest-bearing deposits	4.42	3.60	1.96	1.35	1.29	2.03	3.07	3.33	2.14	1.19
In foreign offices	5.38	3.67	1.70	1.23	1.42	2.76	4.10	4.01	2.21	.38
In domestic offices	4.26	3.60	1.99	1.36	1.27	1.95	2.95	3.22	2.12	1.27
Other checkable deposits	2.57	2.32	.94	.64	.72	1.29	2.12	2.60	1.32	.45
Savings deposits (including MMDAs)	2.94	2.30	1.08	.66	.65	1.30	2.14	2.44	1.32	.55
Large time deposits	5.88	5.11	3.37	2.70	2.49	3.31	4.45	4.46	3.14	2.38
Other time deposits	5.73	5.42	3.68	2.95	2.58	3.03	4.09	4.74	3.85	2.90
Gross federal funds purchased and RPs	6.02	3.86	1.73	1.20	1.37	3.04	4.46	4.71	2.07	.64
Other interest-bearing liabilities	6.25	5.29	3.65	3.04	2.77	3.81	4.90	5.25	3.66	2.42
	Income and expense as a percentage of average net consolidated assets									
Gross interest income	7.54	6.70	5.31	4.67	4.63	5.28	6.08	5.99	4.99	4.49
Taxable equivalent	7.57	6.73	5.34	4.70	4.65	5.31	6.11	6.02	5.01	4.50
Loans	6.05	5.28	4.15	3.72	3.71	4.27	4.85	4.60	3.94	3.67
Securities	1.09	1.06	.90	.75	.73	.77	.87	.93	.71	.65
Gross federal funds sold and reverse RPs	.22	.15	.08	.04	.03	.06	.13	.17	.09	.01
Other	.18	.21	.18	.15	.15	.18	.23	.29	.24	.16
Gross interest expense	3.96	3.14	1.77	1.30	1.26	1.94	2.78	2.96	1.88	1.06
Deposits	2.41	2.01	1.09	.77	.74	1.18	1.84	2.04	1.26	.72
Gross federal funds purchased and RPs	.56	.38	.17	.12	.13	.23	.30	.32	.14	.04
Other	.99	.75	.51	.41	.40	.53	.63	.59	.48	.30
Net interest income	3.58	3.56	3.54	3.37	3.36	3.34	3.30	3.03	3.11	3.43
Taxable equivalent	3.61	3.59	3.57	3.40	3.39	3.37	3.33	3.06	3.13	3.45
Loss provisions[7]	.68	.91	.80	.67	.55	.52	.41	.55	1.69	2.71
Noninterest income	3.18	3.35	3.30	3.29	3.09	2.81	2.91	2.73	2.38	2.35
Service charges on deposits	.42	.42	.42	.42	.40	.37	.35	.33	.32	.30
Fiduciary activities	.52	.42	.42	.37	.42	.35	.41	.54	.41	.24
Trading revenue	.07	.08	.08	.09	.07	.06	.07	.09	–.01	.26
Interest rate exposures	.02	.04	.04	.04	–.01	–.01	.02	*	–.02	.18
Foreign exchange rate exposures	.04	.03	.04	.04	.05	.04	.05	.08	.08	–.03
Other commodity and equity exposures	*	*	*	.01	.03	.02	*	*	*	*
Credit exposures	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	.01	–.06	.11
Other	2.18	2.43	2.37	2.41	2.20	2.03	2.09	1.77	1.65	1.56
Noninterest expense	4.00	3.95	3.73	3.64	3.55	3.36	3.34	3.45	3.56	3.29
Salaries, wages, and employee benefits	1.44	1.47	1.49	1.47	1.45	1.37	1.34	1.32	1.22	1.14
Occupancy	.43	.42	.40	.41	.39	.37	.33	.34	.32	.31
Other	2.14	2.07	1.84	1.76	1.70	1.62	1.68	1.79	2.02	1.85
Net noninterest expense	.82	.60	.43	.35	.45	.55	.43	.72	1.18	.94
Gains on investment account securities	–.05	.09	.10	.06	.03	*	–.03	–.05	–.30	.01
Income before taxes and extraordinary items	2.02	2.14	2.41	2.42	2.39	2.27	2.43	1.71	–.06	–.21
Taxes	.70	.74	.82	.82	.82	.77	.83	.59	.13	*
Extraordinary items, net of income taxes	*	*	*	*	*	.01	.07	–.05	–.01	–.12
Net income	1.32	1.39	1.59	1.59	1.57	1.50	1.67	1.06	–.20	–.33
Cash dividends declared	.94	.96	.99	1.05	.95	1.00	1.37	1.26	.44	.18
Retained income	.38	.43	.60	.54	.62	.50	.30	–.20	–.63	–.52
MEMO: Return on equity	15.72	15.74	17.24	17.03	15.54	13.48	14.05	9.16	–1.67	–2.55

NOTE: Data are as of March 23, 2010.

1. Effective October 1, 2008, the Federal Reserve began paying interest on depository institutions' required and excess reserve balances. Beginning with the 2008:Q4 Call Report, balances due from Federal Reserve Banks are now reported under "Interest-earning assets" rather than "Noninterest-earning assets."

2. Includes allocated transfer risk reserve.

3. Measured as the sum of large time deposits in domestic offices, deposits booked in foreign offices, subordinated notes and debentures, federal funds purchased and securities sold under repurchase agreements, Federal Home Loan Bank advances, and other borrowed money.

4. Measured as the sum of construction and land development loans secured by real estate; real estate loans secured by nonfarm nonresidential properties or by multifamily residential properties; and loans to finance commercial real estate, construction, and land development activities not secured by real estate.

5. Other real estate owned is a component of other noninterest-earning assets.

6. When possible, based on the average of quarterly balance sheet data reported on schedule RC-K of the quarterly Call Report.

7. Includes provisions for allocated transfer risk.

* In absolute value, less than 0.005 percent.

n.a. Not available.

MMDA Money market deposit account.

RP Repurchase agreement.

MBS Mortgage-backed securities.

A.1. Portfolio composition, interest rates, and income and expense, U.S. banks, 2000–09

D. Banks ranked 101 through 1,000 by assets

Item	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
	Balance sheet items as a percentage of average net consolidated assets									
Interest-earning assets[1]	91.50	91.16	91.36	91.34	91.56	91.32	91.07	91.28	91.28	91.30
Loans and leases (net)	62.15	62.46	61.46	61.32	63.33	65.15	67.04	68.85	70.52	67.68
Commercial and industrial	12.95	13.03	12.38	11.50	11.52	11.78	11.68	12.07	12.58	11.38
U.S. addressees	12.60	12.65	12.06	11.20	11.21	11.48	11.45	11.80	12.31	11.17
Foreign addressees	.36	.38	.31	.31	.31	.30	.23	.27	.27	.21
Consumer	10.19	9.76	8.13	6.80	6.33	5.42	5.50	5.35	5.15	4.73
Credit card	3.27	3.65	2.63	1.82	1.91	1.24	1.63	1.88	1.76	1.23
Installment and other	6.92	6.11	5.50	4.98	4.42	4.18	3.87	3.46	3.39	3.50
Real estate	36.93	37.64	38.92	40.95	43.38	45.86	47.88	49.50	50.78	50.00
In domestic offices	36.91	37.62	38.89	40.90	43.32	45.78	47.78	49.41	50.77	49.99
Construction and land development	4.15	4.90	5.40	5.89	7.01	8.86	11.01	12.85	13.04	10.59
Farmland	.65	.66	.73	.80	.91	.99	1.07	1.16	1.22	1.30
One- to four-family residential	17.17	16.18	15.39	15.71	15.33	15.17	14.76	14.08	14.16	14.64
Home equity	2.10	2.21	2.51	2.92	3.46	3.60	3.25	3.01	3.19	3.39
Other	15.06	13.97	12.88	12.79	11.87	11.57	11.51	11.07	10.97	11.24
Multifamily residential	1.58	1.69	1.83	2.00	2.24	2.37	2.32	2.33	2.41	2.48
Nonfarm nonresidential	13.36	14.18	15.55	16.51	17.82	18.39	18.63	18.99	19.95	21.00
In foreign offices	.02	.02	.03	.05	.06	.08	.10	.09	*	*
To depository institutions and acceptances of other banks	.37	.38	.37	.37	.25	.13	.14	.14	.27	.19
Foreign governments	.03	.03	.02	.02	.01	*	*	*	*	*
Agricultural production	.82	.85	.86	.83	.82	.81	.84	.88	.90	.92
Other loans	1.22	1.22	1.18	1.25	1.32	1.36	1.20	1.22	1.37	1.47
Lease-financing receivables	.75	.74	.75	.67	.75	.75	.75	.65	.65	.49
LESS: Unearned income on loans	–.08	–.07	–.06	–.06	–.06	–.06	–.06	–.06	–.06	–.07
LESS: Loss reserves[2]	–1.04	–1.12	–1.10	–1.02	–.98	–.90	–.88	–.91	–1.12	–1.43
Securities	24.34	22.81	23.86	24.36	23.59	21.57	19.55	18.30	16.96	17.28
Investment account	24.25	22.70	23.80	24.23	23.54	21.50	19.47	18.10	16.80	17.19
Debt	23.46	22.28	23.30	23.79	23.18	21.21	19.20	17.69	16.27	16.72
U.S. Treasury	1.81	1.32	1.22	1.00	1.02	.83	.59	.47	.36	.48
U.S. government agency and corporation obligations	15.56	14.70	15.85	16.96	16.70	15.05	13.55	12.32	11.32	11.53
Government-backed mortgage pools	6.22	6.27	6.55	7.03	6.80	5.73	4.83	4.57	5.24	5.34
Collateralized mortgage obligations	3.04	3.08	3.69	3.69	3.41	3.16	2.81	2.60	2.42	2.81
Other	6.30	5.35	5.60	6.24	6.49	6.16	5.90	5.15	3.66	3.39
State and local government	2.91	2.90	2.89	2.95	2.92	2.78	2.74	2.77	2.73	2.90
Private mortgage-backed securities	.99	.94	.99	.87	1.08	1.17	1.08	1.01	.86	.83
Other	2.19	2.42	2.34	2.01	1.46	1.37	1.24	1.12	1.00	.98
Equity	.79	.43	.50	.43	.36	.29	.27	.41	.53	.47
Trading account	.09	.11	.06	.14	.05	.08	.07	.20	.17	.09
Gross federal funds sold and reverse RPs	3.40	4.20	4.15	3.85	2.95	2.83	2.81	2.57	2.01	1.46
Balances at depositories[1]	1.60	1.68	1.89	1.81	1.69	1.76	1.67	1.57	1.78	4.88
Noninterest-earning assets[1]	8.50	8.84	8.64	8.66	8.44	8.68	8.93	8.72	8.72	8.70
Revaluation gains held in trading accounts	.02	.01	.01	*	*	*	.03	.04	.06	.03
Other	8.49	8.84	8.64	8.66	8.44	8.68	8.90	8.67	8.66	8.67
Liabilities	90.95	90.32	89.93	89.68	89.18	89.10	89.01	88.87	89.24	89.52
Core deposits	60.80	60.33	61.26	61.30	60.39	59.03	58.04	59.68	58.94	60.49
Transaction deposits	12.29	11.48	11.37	11.50	11.77	11.15	9.82	8.43	7.74	8.27
Demand deposits	8.97	8.23	8.05	7.96	8.12	7.87	6.99	5.94	5.32	5.51
Other checkable deposits	3.32	3.25	3.32	3.54	3.64	3.28	2.83	2.49	2.42	2.76
Savings deposits (including MMDAs)	28.55	29.40	32.34	34.00	34.42	33.75	32.82	32.89	31.04	31.67
Small time deposits	19.96	19.46	17.55	15.80	14.21	14.13	15.41	18.36	20.15	20.55
Managed liabilities[3]	28.01	27.75	26.57	26.40	26.98	28.38	29.32	27.51	28.72	27.21
Large time deposits	11.98	12.60	12.17	11.92	12.12	13.64	15.21	14.42	14.13	15.21
Deposits booked in foreign offices	1.28	1.24	.88	.64	.65	.57	.52	.57	.72	.60
Subordinated notes and debentures	.30	.31	.34	.35	.35	.27	.24	.22	.21	.16
Gross federal funds purchased and RPs	6.30	5.77	5.27	5.35	5.52	5.54	5.40	5.33	5.26	4.06
Other managed liabilities	8.15	7.84	7.90	8.13	8.34	8.35	7.94	6.97	8.39	7.18
Revaluation losses held in trading accounts	*	.01	.01	*	*	*	.01	.01	.02	.02
Other	2.13	2.23	2.08	1.98	1.81	1.69	1.64	1.66	1.57	1.80
Capital account	9.05	9.68	10.07	10.32	10.82	10.90	10.99	11.13	10.76	10.48
MEMO										
Commercial real estate loans[4]	19.32	21.03	23.05	24.62	27.28	29.84	32.22	34.52	35.86	34.51
Other real estate owned[5]	0.07	0.08	0.10	0.11	0.10	0.08	0.08	0.11	0.27	0.62
Mortgage-backed securities	10.25	10.29	11.24	11.59	11.29	10.06	8.72	8.18	8.52	8.97
Federal Home Loan Bank advances	n.a.	5.27	5.71	6.29	6.46	6.42	6.11	5.53	7.04	5.97
Balances at the Federal Reserve[1]	0.57	0.54	0.52	0.59	0.55	0.47	0.36	0.29	1.46	3.34
Interest-earning	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.15	3.34
Noninterest-earning	0.57	0.54	0.52	0.59	0.55	0.47	0.36	0.29	0.31	n.a.
Interest-earning balances at depositories other than the Federal Reserve	1.60	1.68	1.89	1.81	1.69	1.76	1.67	1.57	1.54	1.53
Average net consolidated assets (billions of dollars)	986	1,002	1,022	1,072	1,080	1,152	1,249	1,267	1,278	1,312

A.1. Portfolio composition, interest rates, and income and expense, U.S. banks, 2000–09—*Continued*

D. Banks ranked 101 through 1,000 by assets—*Continued*

Item	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
	Effective interest rate (percent)[6]									
Rates earned										
Interest-earning assets	8.48	7.85	6.42	5.59	5.46	6.12	7.01	7.31	6.24	5.22
Taxable equivalent	8.56	7.94	6.50	5.67	5.53	6.19	7.08	7.38	6.30	5.28
Loans and leases, gross	9.42	8.76	7.31	6.56	6.25	6.90	7.79	8.02	6.72	5.81
Net of loss provisions	8.75	7.87	6.55	6.01	5.87	6.64	7.55	7.44	5.04	3.15
Securities	6.45	5.96	4.95	3.81	3.79	4.03	4.53	4.86	4.76	4.20
Taxable equivalent	6.71	6.24	5.21	4.06	4.04	4.28	4.80	5.14	5.01	4.43
Investment account	6.45	5.95	4.93	3.82	3.78	4.02	4.53	4.85	4.76	4.20
U.S. Treasury securities and U.S. government agency obligations (excluding MBS)	n.a.	5.85	4.54	3.42	3.15	3.47	4.19	4.74	4.45	3.19
Mortgage-backed securities	n.a.	6.33	5.38	3.95	4.01	4.23	4.64	4.96	5.09	4.75
Other	n.a.	5.40	4.51	4.07	4.21	4.42	4.81	4.81	4.42	3.97
Trading account	9.30	6.60	14.05	3.07	10.30	6.59	4.92	5.25	4.44	4.17
Gross federal funds sold and reverse RPs	6.15	3.91	1.73	1.27	1.57	3.31	4.94	4.87	2.12	.50
Interest-bearing balances at depositories[1]	5.76	3.93	1.79	1.26	1.47	3.29	4.60	4.56	2.21	.44
Rates paid										
Interest-bearing liabilities	4.79	3.97	2.45	1.80	1.65	2.36	3.38	3.78	2.79	1.92
Interest-bearing deposits	4.46	3.81	2.28	1.61	1.44	2.09	3.11	3.59	2.72	1.85
In foreign offices	6.13	4.27	2.14	1.43	1.43	3.05	4.50	4.63	2.29	.59
In domestic offices	4.43	3.81	2.28	1.61	1.44	2.08	3.10	3.58	2.72	1.86
Other checkable deposits	2.27	1.81	1.06	.74	.72	1.18	1.74	1.89	1.17	.71
Savings deposits (including MMDAs)	3.07	2.22	1.17	.75	.74	1.27	2.06	2.38	1.39	.78
Large time deposits	6.00	5.27	3.32	2.58	2.33	3.21	4.42	4.90	3.91	2.71
Other time deposits	5.74	5.51	3.77	2.86	2.51	3.10	4.19	4.83	4.03	2.97
Gross federal funds purchased and RPs	5.95	3.82	1.83	1.29	1.45	2.94	4.52	4.49	2.30	1.15
Other interest-bearing liabilities	6.46	5.32	4.22	3.57	3.37	4.02	4.75	5.04	3.65	3.11
	Income and expense as a percentage of average net consolidated assets									
Gross interest income	7.79	7.16	5.84	5.07	4.99	5.57	6.40	6.67	5.71	4.78
Taxable equivalent	7.86	7.23	5.91	5.15	5.06	5.64	6.46	6.74	5.76	4.82
Loans	5.96	5.59	4.56	4.07	4.01	4.55	5.29	5.58	4.80	4.01
Securities	1.58	1.33	1.15	.91	.88	.86	.89	.88	.80	.72
Gross federal funds sold and reverse RPs	.21	.16	.07	.05	.05	.09	.14	.12	.04	.01
Other	.04	.08	.06	.05	.05	.07	.09	.09	.06	.04
Gross interest expense	3.79	3.14	1.92	1.41	1.29	1.84	2.67	3.00	2.24	1.55
Deposits	2.87	2.48	1.49	1.04	.92	1.34	2.04	2.41	1.81	1.28
Gross federal funds purchased and RPs	.38	.22	.09	.07	.08	.16	.24	.24	.12	.05
Other	.54	.44	.34	.30	.29	.34	.39	.36	.31	.23
Net interest income	4.00	4.02	3.92	3.67	3.70	3.73	3.73	3.67	3.47	3.22
Taxable equivalent	4.07	4.10	3.99	3.74	3.77	3.79	3.79	3.73	3.52	3.27
Loss provisions[7]	.52	.65	.54	.40	.30	.24	.23	.47	1.25	1.88
Noninterest income	2.35	2.37	2.36	2.30	2.26	2.02	1.98	1.88	1.52	1.57
Service charges on deposits	.36	.39	.41	.41	.39	.36	.35	.36	.36	.34
Fiduciary activities	.44	.40	.35	.34	.37	.35	.30	.31	.31	.27
Trading revenue	.01	*	*	.01	.01	.01	.01	.01	–.01	.02
Interest rate exposures	.01	–.01	*	.01	.01	.01	*	*	*	*
Foreign exchange rate exposures	*	*	*	*	*	*	*	*	*	*
Other commodity and equity exposures	*	*	*	*	*	*	*	*	–.01	*
Credit exposures	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	*	*	.01
Other	1.55	1.58	1.60	1.54	1.49	1.30	1.32	1.20	.85	.94
Noninterest expense	3.84	3.88	3.72	3.59	3.54	3.37	3.35	3.26	3.42	3.36
Salaries, wages, and employee benefits	1.59	1.61	1.64	1.64	1.64	1.61	1.59	1.57	1.46	1.42
Occupancy	.47	.46	.45	.43	.43	.41	.40	.40	.39	.39
Other	1.78	1.81	1.63	1.53	1.48	1.36	1.35	1.28	1.58	1.55
Net noninterest expense	1.48	1.52	1.35	1.29	1.29	1.35	1.36	1.38	1.90	1.79
Gains on investment account securities	–.04	.05	.04	.05	.02	–.01	–.01	–.01	–.22	–.02
Income before taxes and extraordinary items	1.96	1.90	2.07	2.02	2.13	2.13	2.13	1.81	.09	–.47
Taxes	.67	.66	.67	.66	.68	.68	.69	.57	.14	*
Extraordinary items, net of income taxes	*	.01	*	.03	*	*	*	*	*	*
Net income	1.29	1.25	1.39	1.39	1.45	1.45	1.43	1.23	–.05	–.47
Cash dividends declared	.92	1.33	1.19	1.64	.78	.87	.90	.91	.57	.34
Retained income	.37	–.08	.20	–.25	.68	.58	.54	.32	–.62	–.80
MEMO: Return on equity	14.21	12.93	13.83	13.46	13.42	13.33	13.05	11.08	–.50	–4.48

NOTE: Data are as of March 23, 2010.

1. Effective October 1, 2008, the Federal Reserve began paying interest on depository institutions' required and excess reserve balances. Beginning with the 2008:Q4 Call Report, balances due from Federal Reserve Banks are now reported under "Interest-earning assets" rather than "Noninterest-earning assets."

2. Includes allocated transfer risk reserve.

3. Measured as the sum of large time deposits in domestic offices, deposits booked in foreign offices, subordinated notes and debentures, federal funds purchased and securities sold under repurchase agreements, Federal Home Loan Bank advances, and other borrowed money.

4. Measured as the sum of construction and land development loans secured by real estate; real estate loans secured by nonfarm nonresidential properties or by multifamily residential properties; and loans to finance commercial real estate, construction, and land development activities not secured by real estate.

5. Other real estate owned is a component of other noninterest-earning assets.

6. When possible, based on the average of quarterly balance sheet data reported on schedule RC-K of the quarterly Call Report.

7. Includes provisions for allocated transfer risk.

* In absolute value, less than 0.005 percent.

n.a. Not available.

MMDA Money market deposit account.

RP Repurchase agreement.

MBS Mortgage-backed securities.

A.1. Portfolio composition, interest rates, and income and expense, U.S. banks, 2000–09

E. Banks not ranked among the 1,000 largest by assets

Item	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
	Balance sheet items as a percentage of average net consolidated assets									
Interest-earning assets[1]	92.52	92.30	92.27	92.16	92.34	92.29	92.36	92.39	92.15	92.42
Loans and leases (net)	62.31	62.67	62.72	62.32	63.80	65.43	66.65	67.29	67.82	66.55
Commercial and industrial	11.09	11.10	10.71	10.42	10.29	10.21	10.17	10.25	10.34	9.72
U.S. addressees	11.02	11.02	10.65	10.37	10.25	10.15	10.12	10.21	10.30	9.68
Foreign addressees	.07	.07	.06	.05	.04	.05	.04	.04	.04	.05
Consumer	7.98	7.42	6.77	6.16	5.45	4.97	4.63	4.36	4.07	3.77
Credit card	.59	.59	.49	.51	.40	.36	.37	.37	.35	.31
Installment and other	7.39	6.83	6.28	5.64	5.05	4.61	4.25	3.99	3.72	3.46
Real estate	39.29	40.30	41.52	42.30	44.75	46.97	48.54	49.28	50.10	49.93
In domestic offices	39.29	40.30	41.52	42.30	44.74	46.97	48.53	49.28	50.10	49.93
Construction and land development	3.70	4.23	4.51	4.99	6.01	7.46	9.10	10.01	9.64	7.80
Farmland	3.06	3.04	3.08	3.13	3.22	3.25	3.26	3.38	3.49	3.64
One- to four-family residential	18.43	18.24	17.91	17.08	17.17	17.12	16.69	16.31	16.64	17.29
Home equity	1.28	1.37	1.62	1.79	2.11	2.20	2.06	2.01	2.11	2.29
Other	17.15	16.87	16.29	15.29	15.06	14.93	14.63	14.30	14.52	15.01
Multifamily residential	1.04	1.06	1.16	1.28	1.41	1.48	1.47	1.50	1.61	1.76
Nonfarm nonresidential	13.06	13.71	14.86	15.82	16.94	17.66	18.01	18.09	18.73	19.43
In foreign offices	*	*	*	*	*	*	*	*	*	*
To depository institutions and acceptances of other banks	.12	.12	.10	.09	.07	.05	.05	.06	.06	.06
Foreign governments	.01	*	*	*	*	*	*	*	*	*
Agricultural production	3.85	3.76	3.64	3.40	3.26	3.21	3.22	3.26	3.24	3.20
Other loans	.69	.67	.65	.66	.68	.70	.70	.70	.73	.75
Lease-financing receivables	.27	.27	.31	.26	.25	.24	.26	.27	.26	.24
LESS: Unearned income on loans	–.11	–.09	–.07	–.06	–.06	–.05	–.05	–.04	–.04	–.04
LESS: Loss reserves[2]	–.88	–.88	–.90	–.92	–.89	–.87	–.87	–.87	–.93	–1.09
Securities	25.40	22.80	23.34	23.47	23.34	21.92	20.54	19.65	19.20	19.22
Investment account	25.38	22.79	23.33	23.43	23.34	21.91	20.52	19.58	19.16	19.18
Debt	24.82	22.49	23.05	23.12	23.07	21.70	20.35	19.41	18.97	19.00
U.S. Treasury	2.12	1.33	1.04	.90	.81	.71	.61	.47	.33	.37
U.S. government agency and corporation obligations	16.95	15.27	16.07	16.23	16.57	15.64	14.73	14.01	13.44	13.12
Government-backed mortgage pools	3.47	3.78	4.54	4.84	4.76	4.23	3.62	3.55	4.80	5.15
Collateralized mortgage obligations	1.70	1.94	2.30	2.20	1.96	1.71	1.50	1.55	1.76	1.88
Other	11.78	9.56	9.23	9.19	9.85	9.70	9.61	8.92	6.88	6.09
State and local government	4.64	4.51	4.56	4.73	4.67	4.49	4.30	4.20	4.24	4.52
Private mortgage-backed securities	.23	.27	.26	.21	.19	.22	.24	.29	.47	.48
Other	.88	1.11	1.12	1.05	.83	.65	.48	.43	.49	.51
Equity	.56	.30	.27	.31	.26	.20	.17	.17	.19	.18
Trading account	.02	.01	.01	.04	.01	.02	.02	.07	.04	.03
Gross federal funds sold and reverse RPs	3.22	5.01	4.26	4.27	3.33	3.24	3.53	3.92	3.29	2.44
Balances at depositories[1]	1.59	1.82	1.95	2.11	1.86	1.69	1.64	1.54	1.84	4.21
Noninterest-earning assets[1]	7.48	7.70	7.73	7.84	7.66	7.71	7.64	7.61	7.85	7.58
Revaluation gains held in trading accounts	*	*	*	*	*	*	*	*	*	*
Other	7.48	7.70	7.73	7.84	7.66	7.71	7.64	7.61	7.85	7.58
Liabilities	89.88	89.59	89.73	89.58	89.55	89.49	89.35	88.95	89.12	89.53
Core deposits	70.87	69.92	70.04	69.96	69.24	67.68	65.74	65.12	64.28	64.35
Transaction deposits	23.20	22.35	22.66	23.18	23.36	22.72	20.81	18.66	17.75	17.99
Demand deposits	12.64	12.16	12.24	12.58	12.77	12.77	11.97	10.73	10.07	9.87
Other checkable deposits	10.57	10.19	10.42	10.60	10.59	9.95	8.84	7.93	7.68	8.12
Savings deposits (including MMDAs)	19.19	19.38	21.32	22.43	23.24	22.98	22.66	22.68	22.56	23.08
Small time deposits	28.48	28.20	26.05	24.36	22.64	21.98	22.28	23.78	23.97	23.28
Managed liabilities[3]	18.08	18.67	18.79	18.78	19.57	21.04	22.76	22.92	24.02	24.42
Large time deposits	12.51	13.55	13.21	13.07	13.15	14.53	16.49	16.91	16.64	17.79
Deposits booked in foreign offices	.05	.06	.07	.06	.07	.06	.06	.05	.06	.05
Subordinated notes and debentures	.02	.02	.04	.03	.04	.03	.03	.03	.03	.03
Gross federal funds purchased and RPs	2.06	1.55	1.51	1.52	1.76	1.74	1.82	1.82	1.87	1.49
Other managed liabilities	3.44	3.49	3.96	4.09	4.54	4.68	4.36	4.11	5.41	5.06
Revaluation losses held in trading accounts	*	*	*	*	*	*	*	*	*	*
Other	.93	1.00	.90	.84	.74	.77	.84	.91	.82	.76
Capital account	10.12	10.41	10.27	10.42	10.45	10.51	10.65	11.05	10.88	10.47
MEMO										
Commercial real estate loans[4]	17.91	19.15	20.67	22.23	24.50	26.77	28.81	29.88	30.34	29.28
Other real estate owned[5]	.11	.12	.14	.15	.14	.13	.12	.16	.35	.70
Mortgage-backed securities	5.39	5.99	7.10	7.25	6.91	6.16	5.36	5.39	7.03	7.51
Federal Home Loan Bank advances	n.a.	3.34	3.71	3.87	4.32	4.46	4.14	3.93	5.20	4.78
Balances at the Federal Reserve[1]	.93	.76	.79	.87	.78	.70	.57	.45	1.26	2.09
Interest-earning	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	.82	2.09
Noninterest-earning	.93	.76	.79	.87	.78	.70	.57	.45	.45	n.a.
Interest-earning balances at depositories other than the Federal Reserve	1.59	1.82	1.95	2.11	1.86	1.69	1.64	1.54	1.71	2.12
Average net consolidated assets (billions of dollars)	655	675	704	742	768	805	840	862	882	897

A.1. Portfolio composition, interest rates, and income and expense, U.S. banks, 2000–09—*Continued*

E. Banks not ranked among the 1,000 largest by assets—*Continued*

Item	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
	Effective interest rate (percent)[6]									
Rates earned										
Interest-earning assets	8.44	7.92	6.79	5.94	5.73	6.23	7.01	7.26	6.34	5.53
Taxable equivalent	8.56	8.03	6.90	6.05	5.84	6.33	7.10	7.35	6.42	5.61
Loans and leases, gross	9.51	9.01	7.83	7.08	6.72	7.17	7.94	8.13	7.03	6.32
Net of loss provisions	9.14	8.60	7.39	6.72	6.45	6.94	7.74	7.81	6.12	4.87
Securities	6.15	5.86	5.03	3.87	3.74	3.87	4.28	4.68	4.70	4.17
Taxable equivalent	6.54	6.27	5.43	4.26	4.11	4.24	4.65	5.05	5.04	4.51
Investment account	6.15	5.86	5.02	3.87	3.73	3.86	4.28	4.68	4.70	4.16
U.S. Treasury securities and U.S. government agency obligations (excluding MBS)	n.a.	5.97	4.80	3.74	3.38	3.53	4.12	4.69	4.62	3.65
Mortgage-backed securities	n.a.	6.20	5.47	3.58	3.90	4.17	4.59	4.96	5.08	4.67
Other	n.a.	5.29	4.87	4.43	4.18	4.16	4.25	4.33	4.28	4.07
Trading account	4.01	6.43	15.38	2.89	18.95	7.52	7.50	4.74	4.33	5.49
Gross federal funds sold and reverse RPs	6.24	3.82	1.63	1.08	1.32	3.21	4.95	5.05	2.17	.31
Interest-bearing balances at depositories[1]	6.38	4.56	2.68	1.97	2.02	3.21	4.64	5.06	3.03	1.15
Rates paid										
Interest-bearing liabilities	4.84	4.43	2.93	2.14	1.88	2.44	3.42	3.91	3.06	2.16
Interest-bearing deposits	4.67	4.31	2.78	2.02	1.75	2.29	3.28	3.81	2.99	2.07
In foreign offices	5.13	3.97	1.67	.85	1.04	2.86	4.27	4.66	2.28	.19
In domestic offices	4.67	4.31	2.78	2.02	1.75	2.29	3.28	3.80	2.99	2.07
Other checkable deposits	2.47	1.97	1.16	.78	.69	.99	1.45	1.62	1.11	.74
Savings deposits (including MMDAs)	3.56	2.81	1.72	1.13	1.04	1.53	2.34	2.67	1.65	1.01
Large time deposits	5.89	5.52	3.61	2.79	2.47	3.21	4.37	4.90	4.03	2.84
Other time deposits	5.70	5.60	3.88	2.96	2.55	3.04	4.12	4.79	4.06	2.99
Gross federal funds purchased and RPs	5.69	3.92	1.85	1.31	1.45	2.89	4.37	4.46	2.35	1.10
Other interest-bearing liabilities	9.13	8.08	6.82	5.31	4.59	5.01	5.70	5.81	4.49	3.89
	Income and expense as a percentage of average net consolidated assets									
Gross interest income	7.83	7.33	6.31	5.46	5.32	5.78	6.49	6.73	5.87	5.12
Taxable equivalent	7.95	7.44	6.41	5.56	5.41	5.87	6.58	6.82	5.94	5.19
Loans	5.99	5.73	5.01	4.47	4.35	4.76	5.35	5.53	4.83	4.27
Securities	1.57	1.32	1.16	.89	.87	.85	.88	.92	.90	.79
Gross federal funds sold and reverse RPs	.21	.20	.07	.05	.05	.11	.18	.20	.08	.01
Other	.05	.08	.06	.06	.05	.06	.08	.08	.07	.05
Gross interest expense	3.64	3.33	2.22	1.60	1.41	1.82	2.56	2.95	2.33	1.67
Deposits	3.30	3.07	1.98	1.41	1.22	1.58	2.27	2.67	2.08	1.48
Gross federal funds purchased and RPs	.12	.06	.03	.02	.02	.05	.08	.08	.04	.02
Other	.21	.20	.21	.17	.17	.19	.21	.20	.21	.17
Net interest income	4.20	4.00	4.08	3.86	3.91	3.96	3.94	3.79	3.54	3.45
Taxable equivalent	4.31	4.10	4.19	3.96	4.00	4.05	4.03	3.87	3.62	3.52
Loss provisions[7]	.32	.33	.35	.29	.23	.21	.20	.28	.68	1.03
Noninterest income	1.31	1.30	1.39	1.47	1.38	1.33	1.31	1.33	1.18	1.01
Service charges on deposits	.43	.44	.45	.43	.43	.40	.38	.37	.36	.33
Fiduciary activities	.20	.25	.27	.28	.31	.33	.36	.38	.33	.24
Trading revenue	*	*	*	*	*	*	*	*	*	*
Interest rate exposures	*	*	*	*	*	*	*	*	*	*
Foreign exchange rate exposures	*	*	*	*	*	*	*	*	*	*
Other commodity and equity exposures	*	*	*	*	*	*	*	*	*	*
Credit exposures	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	*	*	*
Other	.67	.61	.67	.76	.64	.61	.57	.58	.50	.44
Noninterest expense	3.57	3.54	3.57	3.55	3.52	3.48	3.49	3.53	3.52	3.44
Salaries, wages, and employee benefits	1.78	1.79	1.82	1.82	1.81	1.79	1.82	1.84	1.76	1.64
Occupancy	.47	.47	.46	.45	.45	.44	.44	.44	.44	.42
Other	1.31	1.28	1.28	1.28	1.26	1.25	1.24	1.25	1.32	1.38
Net noninterest expense	2.26	2.24	2.18	2.09	2.14	2.15	2.18	2.19	2.33	2.42
Gains on investment account securities	–.01	.04	.05	.04	.01	*	–.01	*	–.10	.02
Income before taxes and extraordinary items	1.61	1.46	1.60	1.53	1.55	1.60	1.55	1.31	.42	.02
Taxes	.45	.39	.41	.38	.37	.38	.36	.30	.09	.04
Extraordinary items, net of income taxes	*	*	–.01	*	*	*	*	*	*	*
Net income	1.17	1.07	1.18	1.14	1.18	1.21	1.19	1.01	.33	–.02
Cash dividends declared	.79	.64	.68	.67	.64	.67	.65	.67	.57	.36
Retained income	.38	.43	.50	.47	.54	.54	.53	.35	–.24	–.38
MEMO: Return on equity	11.52	10.28	11.49	10.97	11.25	11.54	11.14	9.18	3.03	–.19

NOTE: Data are as of March 23, 2010.

1. Effective October 1, 2008, the Federal Reserve began paying interest on depository institutions' required and excess reserve balances. Beginning with the 2008:Q4 Call Report, balances due from Federal Reserve Banks are now reported under "Interest-earning assets" rather than "Noninterest-earning assets."

2. Includes allocated transfer risk reserve.

3. Measured as the sum of large time deposits in domestic offices, deposits booked in foreign offices, subordinated notes and debentures, federal funds purchased and securities sold under repurchase agreements, Federal Home Loan Bank advances, and other borrowed money.

4. Measured as the sum of construction and land development loans secured by real estate; real estate loans secured by nonfarm nonresidential properties or by multifamily residential properties; and loans to finance commercial real estate, construction, and land development activities not secured by real estate.

5. Other real estate owned is a component of other noninterest-earning assets.

6. When possible, based on the average of quarterly balance sheet data reported on schedule RC-K of the quarterly Call Report.

7. Includes provisions for allocated transfer risk.

* In absolute value, less than 0.005 percent.

n.a. Not available.

MMDA Money market deposit account.

RP Repurchase agreement.

MBS Mortgage-backed securities.

A.2. Report of income, all U.S. banks, 2000–09

Millions of dollars

Item	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Gross interest income	423,845	404,251	349,603	329,218	348,667	426,600	551,085	616,994	565,232	480,744
Taxable equivalent	426,479	406,937	352,351	332,000	351,651	429,556	554,341	620,456	567,906	483,511
Loans	326,804	311,539	269,397	257,697	269,408	328,088	421,922	464,878	426,025	367,691
Securities	67,666	63,061	59,311	53,316	58,577	65,864	78,913	82,710	81,547	85,803
Gross federal funds sold and reverse repurchase agreements	13,546	12,647	6,221	5,015	5,142	11,045	21,288	28,682	16,642	3,565
Other	15,829	17,006	14,672	13,189	15,538	21,602	28,960	40,723	41,019	23,687
Gross interest expense	222,161	188,746	118,741	94,123	98,541	162,501	263,393	310,412	226,557	122,065
Deposits	151,147	132,311	81,701	62,400	63,639	105,922	173,898	212,783	154,312	84,179
Gross federal funds purchased and repurchase agreements	26,860	19,583	9,920	7,590	8,842	19,161	33,776	37,715	19,755	4,846
Other	44,155	36,852	27,122	24,133	26,058	37,418	55,721	59,914	52,489	33,041
Net interest income	201,684	215,505	230,862	235,095	250,126	264,099	287,692	306,582	338,675	358,679
Taxable equivalent	204,318	218,191	233,610	237,877	253,110	267,055	290,948	310,044	341,349	361,446
Loss provisions	29,386	43,084	45,206	32,742	23,894	25,579	25,386	56,749	170,777	231,927
Noninterest income	153,101	160,902	168,236	183,792	188,999	201,768	222,901	218,554	209,052	245,173
Service charges on deposits	23,720	26,872	29,629	31,692	33,454	33,830	36,194	39,187	42,542	41,000
Fiduciary activities	22,202	21,988	21,404	22,453	25,088	26,381	28,312	32,962	32,909	26,958
Trading revenue	12,235	12,382	10,794	11,605	10,303	14,375	19,170	5,289	–1,235	23,265
Other	94,945	99,658	106,410	118,042	120,154	127,180	139,226	141,116	134,839	153,952
Noninterest expense	216,375	225,979	230,128	243,214	263,304	274,136	294,891	321,406	357,254	356,135
Salaries, wages, and employee benefits	89,016	94,196	100,447	108,446	115,254	124,038	135,869	144,700	147,502	152,289
Occupancy	26,762	27,939	29,311	31,314	33,253	35,051	36,393	38,531	40,896	41,622
Other	100,598	103,846	100,368	103,453	114,797	115,048	122,630	138,177	168,855	162,224
Net noninterest expense	63,274	65,077	61,892	59,422	74,305	72,368	71,990	102,852	148,202	110,962
Gains on investment account securities	–2,280	4,630	6,411	5,633	3,393	–220	–1,320	–648	–16,432	–1,651
Income before taxes	106,741	111,971	130,176	148,563	155,322	165,933	188,995	146,334	3,264	14,141
Taxes	37,249	37,284	42,816	48,498	50,264	53,568	60,969	44,230	2,469	4,283
Extraordinary items, net of income taxes	–31	–324	–68	427	59	241	2,647	–1,672	5,382	–3,845
Net income	**69,461**	**74,363**	**87,291**	**100,494**	**105,115**	**112,604**	**130,674**	**100,431**	**6,178**	**5,220**
Cash dividends declared	52,547	54,844	67,230	77,757	59,523	64,624	82,360	85,266	43,327	43,445
Retained income	16,915	19,519	20,062	22,738	45,591	47,981	48,312	15,166	–37,150	–38,226

NOTE: Data are as of March 23, 2010.

December 2010

The 2009 HMDA Data: The Mortgage Market in a Time of Low Interest Rates and Economic Distress

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Data made available annually pursuant to the Home Mortgage Disclosure Act of 1975 (HMDA) provide an opportunity to explore changes in mortgage market activity along a host of dimensions.[1] HMDA requires most mortgage lending institutions with offices in metropolitan areas to publicly disclose information about their home-lending activity each year. The data include the disposition of each application for mortgage credit; the type, purpose, lien status, and characteristics of the home mortgages that lenders originate or purchase during the calendar year; loan pricing information; the census-tract designation of the properties related to these loans; personal demographic and other information about the borrowers; and information about loan sales.[2] The disclosures are used to help the public determine whether institutions are adequately serving their communities' housing finance needs, to facilitate enforcement of the nation's fair lending laws, and to inform investment in both the public and private sectors. The data have also proven to be valuable as a research tool, providing insights in many fields of interest.

The Federal Reserve Board currently implements the provisions of HMDA through regulation.[3] The Federal Financial Institutions Examination Council (FFIEC) is responsible for collecting the HMDA data and facilitating public access to the information.[4] In September, the FFIEC releases summary tables pertaining to lending activity from the previous calendar year for each reporting lender and aggregations of home-lending activity for each metropolitan statistical area (MSA) and for the nation as a whole.[5] The FFIEC also makes available to the public an application-level data file containing virtually all of the reported information for each lending institution.[6]

The 2009 HMDA data consist of information reported by more than 8,100 home lenders, including the nation's largest mortgage originators, and thus are broadly representative of all such lending in the United States. The regulations that implement HMDA have been essentially unchanged since 2002, with one notable exception. The rules related to the reporting of pricing data under HMDA were revised in 2008. The new procedures affect whether or not a loan is classified as higher priced starting with applications taken on October 1, 2009. Thus, the 2009 HMDA data reflect two different loan pricing classification rules, although, for the majority of the year and for most loans originated in 2009, the older rules applied. The effects of the rule change on reported higher-priced lending are explored in some depth in this article.

1. A brief history of HMDA is available at Federal Financial Institutions Examination Council, "History of HMDA," webpage, www.ffiec.gov/hmda/history2.htm.

2. A list of the items reported under HMDA is provided in appendix A.

3. HMDA is implemented by Regulation C (12 C.F.R. pt. 203) of the Federal Reserve Board. Information about the regulation is available at www.federalreserve.gov.

4. The FFIEC (www.ffiec.gov) was established by federal law in 1979 as an interagency body to prescribe uniform examination procedures, and to promote uniform supervision, among the federal agencies responsible for the examination and supervision of financial institutions. The member agencies are the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and representatives from state bank supervisory agencies.

5. For the 2009 data, the FFIEC prepared and made available to the public 48,563 MSA-specific HMDA reports on behalf of reporting institutions. The FFIEC also makes available to the public reports about private mortgage insurance (PMI) activity. All the HMDA and PMI reports are available on the FFIEC's reports website at www.ffiec.gov/reports.htm.

6. The only reported items not included in the data made available to the public are the loan application number, the date of the application, and the date on which action was taken on the application. Those items are withheld to help ensure that the individuals involved in the application cannot be identified.

Summary of Findings

This article offers a summary and preliminary analysis of the 2009 HMDA data. The results of our analysis reveal the following about mortgage lending in 2009:

- After substantial declines in loan volume in 2007 and 2008, overall loan volume rebounded in 2009, though it remained well below the levels observed in the middle of the decade. This increase obscures divergent trends. While refinance activity increased sharply, likely as a result of historically low interest rates, home-purchase lending continued to decline in 2009.
- The increase in refinancing activity in 2009 appears to have been somewhat subdued compared with what has historically been observed when mortgage rates sharply decline. Evidence presented in this article suggests that the more muted growth stems from several factors, including economic distress and low or negative equity among many households that could have benefited from lower rates.
- The decline in home-purchase lending could have been more dramatic were it not for first-time homebuyers. Those homebuyers benefited not only from certain market conditions such as historically low interest rates and falling house prices, but also from a federal tax credit of $8,000 and the fact that they did not need to sell a house in a depressed economic environment.
- The percentage of home-purchase borrowers classified as lower-income under HMDA rose significantly in 2009 but did not rise in the refinance market. Lower-income home-purchase borrowers were also disproportionately likely to take out Federal Housing Administration (FHA) or Department of Veterans Affairs (VA) loans.
- The substantial growth in the portion of new home mortgages that were backed by the FHA, VA, or federal farm programs during 2008 continued in 2009, with such loans accounting for 54 percent of all home-purchase lending. One factor likely playing a role in this growth is the pullback by the government-sponsored enterprises (GSEs)—Fannie Mae and Freddie Mac—and private mortgage insurers from the high loan-to-value (LTV) ratio market.
- An analysis of the HMDA pricing data in 2009 is complicated by the steepening yield curve and the transition to new HMDA reporting rules for pricing. Comparisons of pricing outcomes across racial and ethnic groups are particularly problematic for this reason. Nevertheless, the data appear to indicate that high-risk lending activity remained at very low levels during 2009, with no indication of a rebound.
- Lending activity in census tracts with high foreclosure activity has declined more than in other neighborhoods. This decline has been particularly severe for refinance lending. Declines in home-purchase lending in high-foreclosure tracts have been similar to those observed for other tracts in the same MSAs.
- Denial rate differences across racial and ethnic groups persist, although the HMDA data do not include sufficient information to determine the extent to which these differences stem from illegal discrimination.

An Overview of the 2009 HMDA Data

HMDA covers most mortgage lending institutions, including all of the largest lenders. From the inception of HMDA, depository institutions have constituted

1. Distribution of reporters covered by the Home Mortgage Disclosure Act, by type of institution, 2000–09

Number

Year	Depository institution				Mortgage company			All institutions
	Commercial bank	Savings institution	Credit union	All	Independent	Affiliated[1]	All	
2000	3,609	1,112	1,691	6,412	981	332	1,313	7,725
2001	3,578	1,108	1,714	6,400	962	290	1,252	7,652
2002	3,628	1,070	1,799	6,497	986	310	1,296	7,793
2003	3,642	1,033	1,903	6,578	1,171	382	1,553	8,131
2004	3,945	1,017	2,030	6,992	1,317	544	1,861	8,853
2005	3,904	974	2,047	6,925	1,341	582	1,923	8,848
2006	3,900	946	2,037	6,883	1,334	685	2,019	8,902
2007	3,918	929	2,019	6,866	1,132	638	1,770	8,636
2008	3,942	913	2,026	6,881	957	550	1,507	8,388
2009	3,925	879	2,017	6,821	914	389	1,303	8,124

NOTE: Here and in all subsequent tables, components may not sum to totals because of rounding.

1. Subsidiary of a depository institution or an affiliate of a bank holding company.

SOURCE: Here and in subsequent tables and figures except as noted, Federal Financial Institutions Examination Council, data reported under the Home Mortgage Disclosure Act (www.ffiec.gov/hmda).

2. Home loan activity of lending institutions covered under the Home Mortgage Disclosure Act, 2000–09

A. Applications, requests for preapproval, and purchased loans

Number

Year	Applications received for home loans, by type of property				Requests for preapproval[1]	Purchased loans	Total
	1–4 family			Multifamily			
	Home purchase	Refinance	Home improvement				
2000	8,278,219	6,543,665	1,991,686	37,765	n.a.	2,398,292	19,249,627
2001	7,692,870	14,284,988	1,849,489	48,416	n.a.	3,767,331	27,643,094
2002	7,406,374	17,491,627	1,529,347	53,231	n.a.	4,829,706	31,310,285
2003	8,179,633	24,602,536	1,508,387	58,940	n.a.	7,229,635	41,579,131
2004	9,792,324	16,072,102	2,202,744	61,895	332,054	5,146,617	33,607,736
2005	11,672,852	15,898,346	2,539,158	57,668	396,686	5,874,447	36,439,157
2006	10,928,866	14,045,961	2,480,827	52,220	411,134	6,236,352	34,155,360
2007	7,609,143	11,566,182	2,218,224	54,230	432,883	4,821,430	26,702,092
2008	5,017,998	7,729,143	1,404,008	42,792	275,808	2,921,821	17,391,570
2009	4,201,057	9,935,678	826,916	26,257	209,055	4,294,528	19,493,491

NOTE: Here and in subsequent tables, except as noted, data include first and junior liens, site-built and manufactured homes, and owner- and non-owner-occupied loans.

1. Consists of requests for preapproval that were denied by the lender or were accepted by the lender but not acted upon by the borrower. In this article, applications are defined as being for a loan on a specific property; they are thus distinct from requests for preapproval, which are not related to a specific property. Information on preapproval requests was not required to be reported before 2004.

n.a. Not available.

the bulk of the reporting entities. For 2009, 8,124 institutions reported on their home-lending activity under HMDA: 3,925 commercial banks; 879 savings institutions (savings and loans and savings banks); 2,017 credit unions; and 1,303 mortgage companies, 914 of which were not affiliated with a banking institution (table 1).[7] The number of reporting institutions has fluctuated over the years, in part reflecting changes in reporting requirements, including increases in the minimum asset level used to determine coverage.[8] Changes in the number and geographic footprint of metropolitan areas also influence reporting over time, as HMDA's coverage focuses on institutions with at least one office in a metropolitan area.[9] Finally, mergers and acquisitions, along with changes in economic conditions that at times have resulted in more bank failures or new start-ups, have affected the number of reporters. For 2009, the number of reporters fell 3 percent from 2008, continuing a downward trend since 2006. Independent mortgage companies experienced the largest percentage decline in 2009, falling nearly 14 percent. Since 2006, the number of mortgage companies has fallen by more than one-third.

Reporting lenders submitted information on 15 million applications for home loans of all types in 2009 (excluding requests for preapprovals and purchased loans), up about 6 percent from 2008 but still far below the 27.5 million applications reached in 2006, just before the housing market began unraveling (data derived from table 2.A). The majority of loan applications are approved by lenders, and most of these approvals result in extensions of credit. Some applications are approved, but the applicant decides not to take out the loan; for example, in 2009 nearly 6 percent of all applications were approved but not accepted by the applicant (data not shown in tables). Overall, of the nearly 15 million applications submitted in 2009, 60 percent resulted in an extension of credit (data derived from tables 2.A and 2.B).

The HMDA data also include information on loan purchases by lenders, although the purchased loans may have been originated at any point in time. For 2009, lenders reported information on nearly 4.3 million loans that they had purchased from other institutions, a sharp rebound from the nearly decade-low volume reported in 2008. Finally, lenders reported on roughly 209,000 requests for preapprovals of home-purchase loans that did not result in a loan origination (table 2.A); preapprovals that resulted in a loan are included in the count of loan extensions noted earlier.

7. The data used in this article for the years 1990 to 2007 are based on revised HMDA filings, which include corrections to the initial public release. Consequently, figures for these years may not correspond exactly to figures in tables of earlier articles. The data for 2008 and 2009 reflect the initial public release.

8. For the 2010 reporting year covering the 2009 data, the minimum asset size for purposes of coverage was $39 million. The minimum asset size changes from year to year with changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers. See the FFIEC's guide to HMDA reporting at www.ffiec.gov/hmda/guide.htm.

9. From time to time, the Office of Management and Budget updates the list and geographic scope of metropolitan and micropolitan statistical areas. See Office of Management and Budget, "Statistical Programs and Standards," webpage, www.whitehouse.gov/omb/inforeg_statpolicy.

2. Home loan activity of lending institutions covered under the Home Mortgage Disclosure Act, 2000–09

B. Loans

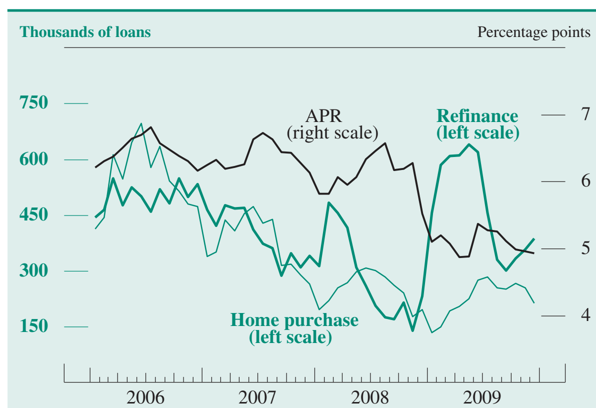
Number

Year	Loans, by type of property				Total
	1–4 family			Multifamily	
	Home purchase	Refinance	Home improvement		
2000	4,787,356	2,435,420	892,587	27,305	8,142,668
2001	4,938,809	7,889,186	828,820	35,557	13,692,372
2002	5,124,767	10,309,971	712,123	41,480	16,188,341
2003	5,596,292	15,124,761	678,507	48,437	21,447,997
2004	6,429,988	7,583,928	966,484	48,150	15,028,550
2005	7,382,012	7,101,649	1,093,191	45,091	15,621,943
2006	6,740,322	6,091,242	1,139,731	39,967	14,011,262
2007	4,663,267	4,817,875	957,912	41,053	10,480,107
2008	3,119,692	3,457,774	568,287	31,509	7,177,262
2009	2,784,956	5,758,875	387,970	19,135	8,950,936

Lending for Home Purchase or Refinancing

A monthly count of home-purchase and refinance loan originations for one- to four-family homes in the HMDA data shows a downward trend in home-

1. Volume of home-purchase and refinance originations and annual percentage rate, by month, 2006–09



Note: The data are monthly. Loans are first- and second-lien mortgages excluding multifamily housing. Annual percentage rate (APR) is the average monthly rate for a 30-year fixed-rate mortgage from the Freddie Mac Primary Mortgage Market Survey, as reported by the Federal Financial Institutions Examination Council, www.ffiec.gov/ratespread/newcalc.aspx.

purchase lending from 2006 to 2009 (figure 1).[10] For instance, in June 2006, the peak month for home-purchase lending that year, about 698,000 home-purchase loans were extended, compared with only 308,000 such loans in the peak month of 2008 and 285,000 at the monthly high point for 2009. Overall, the number of home-purchase loans reported by lenders covered by HMDA was down about 11 percent from 2008 and was nearly 60 percent lower than in 2006 (data derived from table 2.B).

The volume of refinance lending tends to be more closely aligned with changes in interest rates than that of home-purchase lending, expanding when mortgage rates fall and retrenching when rates rise. The interest rate environment in 2009 was quite favorable for borrowers, and the number of reported refinance loans increased 67 percent from 2008 to 2009 (table 2.B). However, factors such as elevated unemployment, depressed home prices, and tighter underwriting appear to have hampered refinance activity, as discussed in more detail later.

Non-Owner-Occupied Lending

Individuals buying homes either for investment purposes or as second or vacation homes have been an important segment of the housing market for many years. Under HMDA, housing units used in such ways are collectively described and reported as non-owner occupied.[11] Between 2000 and 2005, the share of non-owner-occupied lending used to purchase one- to four-family homes rose, increasing over this period to 16 percent from about 9 percent (data derived from

10. Lenders report the date on which action on an application is taken. For originations, the "action taken" date is the closing date or date of loan origination for the loan. This date is the one we use to compile data at the monthly level. To help ensure the anonymity of the data, the dates of application and action taken are not released in the HMDA data files made available to the public.

The estimated annual percentage rates (APRs) in figure 1 are derived from information on contract rates and points from Freddie Mac's Primary Mortgage Market Survey. Loan counts are aggregated to the monthly level using the date of loan origination, as opposed to the potentially earlier date when the interest rate for the loan was set, which is not reported under HMDA.

11. An investment property is a non-owner-occupied dwelling that is intended to be rented or resold for a profit. Some non-owner-occupied units—vacation homes and second homes—are for the primary use of the owners and thus would not be considered investment properties. The HMDA data do not, however, distinguish between these two types of non-owner-occupied dwellings.

3. Home loan applications and home loans for one- to four-family properties, by occupancy status of home and type of loan, 2000–09

Number

Year	Applications				Loans			
	Owner occupied		Non-owner occupied		Owner occupied		Non-owner occupied	
	Conventional	Non-conventional[1]	Conventional	Non-conventional[1]	Conventional	Non-conventional[1]	Conventional	Non-conventional[1]
	A. Home purchase							
2000	6,350,643	1,311,101	604,919	12,524	3,411,887	963,345	404,133	8,378
2001	5,776,767	1,268,885	627,598	19,688	3,480,441	1,003,795	440,498	14,128
2002	5,511,048	1,133,770	747,758	13,923	3,967,834	870,599	547,963	8,474
2003	6,212,915	1,014,865	943,248	8,623	4,162,412	761,716	667,613	4,560
2004	7,651,113	799,131	1,335,241	6,839	4,946,423	574,841	906,014	2,710
2005	9,208,214	610,650	1,850,174	3,814	5,742,377	438,419	1,199,509	1,707
2006	8,695,877	576,043	1,653,154	3,792	5,281,485	416,744	1,040,668	1,425
2007	5,960,571	599,637	1,044,112	4,823	3,582,949	423,506	655,916	896
2008	2,940,059	1,424,483	647,340	6,116	1,727,692	972,605	415,930	3,465
2009	1,883,278	1,884,136	427,338	6,305	1,171,033	1,320,412	289,796	3,715
	B. Refinance							
2000	6,051,484	110,380	379,299	2,502	2,170,162	64,882	198,695	1,293
2001	12,737,863	705,784	823,748	17,592	6,836,106	524,228	516,616	12,181
2002	15,623,327	742,208	1,111,588	14,504	9,058,654	535,370	706,570	9,377
2003	21,779,329	1,236,467	1,563,430	23,310	13,205,472	895,735	1,007,674	15,871
2004	14,476,350	497,700	1,084,536	13,516	6,649,588	304,591	621,667	8,082
2005	14,494,441	262,438	1,135,929	5,538	6,336,004	158,474	603,914	3,257
2006	12,722,112	208,405	1,112,891	2,553	5,382,950	122,134	585,142	1,016
2007	10,173,282	375,860	1,012,827	4,213	4,123,507	196,897	496,577	894
2008	5,829,633	1,240,472	650,042	8,996	2,593,793	522,243	337,914	3,824
2009	7,251,066	2,051,766	617,707	15,139	4,404,215	998,585	348,599	7,476
	C. Home improvement							
2000	1,833,277	91,575	65,286	1,548	843,884	10,896	37,047	760
2001	1,771,472	16,276	60,598	1,143	788,560	6,722	32,990	548
2002	1,459,049	11,582	58,080	636	676,515	4,878	30,533	197
2003	1,430,380	13,876	63,806	325	642,065	5,226	31,113	103
2004	2,081,528	11,887	109,105	224	904,492	5,557	56,341	94
2005	2,401,030	10,053	127,857	218	1,026,340	4,483	62,298	70
2006	2,335,338	12,645	132,694	150	1,067,730	6,115	65,842	44
2007	2,072,688	16,717	128,700	119	887,123	9,409	61,321	59
2008	1,294,162	26,544	83,036	266	516,612	12,347	39,170	158
2009	740,061	28,437	58,171	247	348,409	11,212	28,183	166

1. Loans insured by the Federal Housing Administration or backed by guarantees from the U.S. Department of Veterans Affairs, the Farm Service Agency, or the Rural Housing Service.

table 3, panel A). Since 2005, the share has fallen, dropping to about 11 percent in 2009.

Types of Loans

While the total number of loans to purchase homes has fallen sharply since near the middle of the decade, the volume of nonconventional home-purchase loans—including loans backed by FHA insurance, VA loan guarantees, and, to a lesser extent, Rural Housing Service (RHS) guarantees and guaranteed and direct loans from the Farm Service Agency (FSA)—has increased markedly, particularly since 2007 (table 3, panel A). From 2006 to 2009, the total number of reported home-purchase loans for owner-occupied homes fell 56 percent, while the number of nonconventional home-purchase loans of this sort more than tripled.

Nonconventional lending has also garnered a larger share of the refinance market since 2007, although conventional loans used for refinancing still outnumber nonconventional loans (table 3, panel B). In 2006, there were 44 conventional loans used for the refinancing of loans secured by owner-occupied homes for every nonconventional loan; in 2009, the ratio was 5 to 1. We discuss these developments in more detail in the later section "The Changing Role of Government in the Mortgage Market."

The sharp increase in nonconventional lending for home purchase relates almost exclusively to site-built homes. In fact, the volume of loans, whether nonconventional or conventional, to purchase manufactured homes has fallen every year since 2006, and such lending represents a small fraction (less than 3 percent in

4. Loans on manufactured homes, by occupancy status of home and type of loan, 2004–09

Number

Year	Owner occupied		Non-owner occupied	
	Conventional	Nonconventional[1]	Conventional	Nonconventional[1]
	A. Home purchase			
2004	107,686	23,974	16,243	125
2005	101,539	27,229	17,927	56
2006	102,458	30,530	19,105	257
2007	95,584	28,554	13,963	92
2008	68,821	27,615	11,392	93
2009	43,253	20,558	7,895	29
	B. Refinance			
2004	79,838	6,922	6,507	57
2005	73,520	7,727	6,331	26
2006	64,969	11,750	6,240	68
2007	59,591	16,174	6,332	74
2008	44,342	21,926	6,817	177
2009	36,765	21,765	5,922	59
	C. Home improvement			
2004	17,119	128	1,269	5
2005	20,239	219	1,372	3
2006	20,886	490	1,425	2
2007	19,428	889	1,494	2
2008	12,621	681	1,324	36
2009	9,710	439	1,110	1

1. See note to table 3.

2009) of total home-purchase lending (data derived from tables 2.B and 4).

Junior-Lien Lending

Information on lien status reported in the HMDA data differentiates among loans secured by a first lien, secured by a subordinate (junior) lien, and not secured. (The latter arises only among home-improvement loans, for which a security interest in a property may or may not be taken). Home equity lines of credit (both first and junior liens) are generally not reported under HMDA. Other junior liens are reported only if they are used for home purchase, home improvement, or a refinancing of a previous loan, which means, in practice, that only junior liens used for home purchase are comprehensively reported in HMDA. In the recent past, one important purpose of home purchase junior-lien loans was to avoid paying for either private mortgage insurance (PMI) or government mortgage insurance when purchasing a home. By taking out a junior-lien loan (often referred to as a "piggyback" loan) to accompany the primary mortgage, homebuyers were able to finance the down payment. In 2006, HMDA reporters extended nearly 1.3 million junior-lien loans for the purpose of buying an owner-occupied home (table 5, panel A). The number of such loans fell by more than one-half in 2007 and fell sharply again in 2008. In 2009, only about 44,000 such loans were extended by HMDA reporters.

Loan Sales

The HMDA data include information on the type of purchaser for loans that are originated and sold during the year. The data are one of the few sources of information that provide a fairly comprehensive record of where loans are placed after origination. Because some loans originated during a calendar year are sold after the end of the year, the HMDA data tend to understate the proportion of originations that are eventually sold, an issue we deal with in more detail in the later section "The Changing Role of Government in the Mortgage Market."

Regulation C identifies nine types of purchasers that lenders may use when reporting their loan sale activity. Broadly, these purchaser types can be broken into those that are government related—Ginnie Mae, Fannie Mae, Freddie Mac, and Farmer Mac—and those that are not.[12] Ginnie Mae and Farmer Mac are fo-

12. Technically, Ginnie Mae does not buy or sell loans; rather, it guarantees that investors receive timely payment of interest and principal for mortgage-backed securities backed by FHA or VA loans. However, the HMDA rules direct lenders to report loans covered by Ginnie Mae guarantees as sales to Ginnie Mae. (See the Ginnie Mae website at www.ginniemae.gov.) Farmer Mac purchases

5. Home loans for one- to four-family properties, by occupancy status of home, type of loan, and lien status, 2004–09

Number

Year	Owner occupied						Non-owner occupied					
	Conventional			Nonconventional[1]			Conventional			Nonconventional[1]		
	First lien	Junior lien	Unsecured	First lien	Junior lien	Unsecured	First lien	Junior lien	Unsecured	First lien	Junior lien	Unsecured
	A. Home purchase											
2004	4,209,787	736,636	n.a.	573,606	1,235	n.a.	853,490	52,524	n.a.	2,703	7	n.a.
2005	4,520,378	1,221,999	n.a.	437,552	867	n.a.	1,049,555	149,954	n.a.	1,685	22	n.a.
2006	4,013,196	1,268,289	n.a.	416,143	601	n.a.	878,325	162,343	n.a.	1,407	18	n.a.
2007	3,031,606	551,343	n.a.	422,450	1,056	n.a.	605,714	50,202	n.a.	888	8	n.a.
2008	1,636,194	91,498	n.a.	971,528	1,077	n.a.	410,377	5,553	n.a.	3,461	4	n.a.
2009	1,128,950	42,083	n.a.	1,318,940	1,472	n.a.	287,760	2,036	n.a.	3,706	9	n.a.
	B. Refinance											
2004	6,185,418	464,170	n.a.	304,298	293	n.a.	608,956	12,711	n.a.	8,069	13	n.a.
2005	5,607,642	728,362	n.a.	158,198	276	n.a.	578,491	25,423	n.a.	3,236	21	n.a.
2006	4,347,348	1,035,602	n.a.	121,761	373	n.a.	546,430	38,712	n.a.	989	27	n.a.
2007	3,462,944	660,563	n.a.	196,544	353	n.a.	473,336	23,241	n.a.	879	15	n.a.
2008	2,374,781	219,012	n.a.	521,863	380	n.a.	328,844	9,070	n.a.	3,814	10	n.a.
2009	4,290,072	114,143	n.a.	998,089	496	n.a.	341,852	6,747	n.a.	7,460	16	n.a.
	C. Home improvement											
2004	357,618	395,582	151,292	2,697	2,243	617	40,028	8,153	8,160	30	54	10
2005	409,947	468,375	148,018	2,197	1,873	413	42,544	10,756	8,998	17	49	4
2006	360,321	553,152	154,257	3,957	1,735	423	43,913	13,739	8,190	18	20	6
2007	301,078	435,187	150,858	7,510	1,579	320	41,670	11,508	8,143	35	18	6
2008	179,506	181,402	155,704	10,477	1,610	260	26,482	5,473	7,215	135	13	10
2009	165,620	84,332	98,457	8,147	2,416	649	19,598	3,174	5,411	101	29	36

1. See note to table 3.
n.a. Not available.

cused on nonconventional loans (FHA, VA, FSA, and RHS). Fannie Mae and Freddie Mac are focused on conventional loans, within the size limits set by the Congress that meet the underwriting standards established by these entities.

The HMDA data document the importance of the secondary market for home loans. Overall, 82 percent of the first-lien home-purchase and refinance loans for one- to four-family properties originated in 2009 were sold during the year (data not shown in tables).[13] The share of originations that are sold varies a bit from year to year and by type and purpose of the loan (table 6, panel A). For example, about 70 percent of the conventional loans for the purchase of owner-occupied one- to four-family dwellings that were originated in 2009 were sold that year. In contrast, about 92 percent of the nonconventional loans used to purchase owner-occupied homes were sold in 2009. The share of conventional loans made to non-owner occupants that are sold is notably smaller than that for owner-occupied loans.

Application Disposition, Loan Pricing, and Status under the Home Ownership and Equity Protection Act

For purposes of analysis, loan applications and loans reported under HMDA can be grouped in many ways. Every loan application reported in 2009 can be organized into 25 distinct product categories characterized by type of loan and property, purpose of the loan, and lien and owner-occupancy status (tables 7.A, 7.B, 8.A, and 8.B). Each product category contains information on the number of total and preapproval applications, application denials, originated loans, loans with prices above the reporting thresholds established by HMDA reporting rules for identifying higher-priced loans, loans covered by the Home Ownership and Equity Protection Act of 1994 (HOEPA), and the mean and median annual percentage rate (APR) spreads for loans reported as higher priced. Table 7.A includes all applications filed prior to October 1, 2009; table 7.B includes applications filed over the remainder of the year. This division corresponds to the change in price-reporting rules noted earlier and discussed in more detail in the later section "The 2009 HMDA Data on

certain types of agriculture-related loans. (See a description of Farmer Mac programs at www.farmermac.com/lenders/fmacprograms/farmermacprograms.aspx.)

13. Loans that are sold in a different calendar year than the year of origination are recorded in the HMDA data as being held in the lender's portfolio. In some cases, these loans are sold in subsequent years, but those actions are not reported. Also, some loans recorded as sold in the HMDA data are sold to affiliated institutions and thus are not true secondary-market sales. In 2009, 6.5 percent of the loans recorded as sold in the HMDA data were sales to affiliates.

6. Distribution of home loan sales for one- to four-family properties, by occupancy status of home and type of loan, 2000–09

Percent

Year	Owner occupied				Non-owner occupied			
	Conventional		Nonconventional[1]		Conventional		Nonconventional[1]	
	Share sold	MEMO: Share sold to GSEs[2]	Share sold	MEMO: Share sold to GSEs[2]	Share sold	MEMO: Share sold to GSEs[2]	Share sold	MEMO: Share sold to GSEs[2]
	A. Home purchase							
2000	64.8	31.3	89.1	46.0	53.7	29.3	81.4	22.9
2001	66.8	34.6	86.1	46.2	57.9	34.0	92.2	23.0
2002	71.0	36.7	88.7	43.7	62.5	36.4	87.9	29.7
2003	72.3	33.1	91.2	40.7	63.1	31.8	80.8	21.6
2004	74.2	25.5	92.2	40.5	63.5	23.6	63.7	11.5
2005	75.9	18.7	89.9	32.6	69.7	18.0	49.7	16.3
2006	74.8	19.0	88.6	31.7	69.3	19.0	61.3	15.0
2007	70.1	29.1	87.6	32.5	61.4	26.9	74.9	27.6
2008	71.6	40.1	90.0	36.5	60.3	36.3	95.1	21.6
2009	70.4	39.7	91.7	34.5	57.4	34.1	88.7	35.6
	B. Refinance							
2000	47.4	18.0	84.5	50.0	47.3	21.7	86.3	42.8
2001	61.3	37.2	85.0	51.5	61.2	38.4	92.1	33.2
2002	66.8	40.4	85.7	45.0	65.9	43.2	81.3	45.4
2003	74.2	44.8	93.8	48.0	69.8	40.4	87.4	50.7
2004	69.0	27.6	93.2	44.2	62.2	22.6	88.0	35.9
2005	69.9	19.7	89.3	33.5	64.7	16.6	85.7	40.1
2006	65.7	15.2	86.8	31.8	64.9	15.7	79.0	29.6
2007	61.7	21.9	85.1	34.5	61.1	23.9	86.9	23.9
2008	65.3	38.0	88.8	35.4	56.8	33.0	95.7	20.4
2009	79.8	51.7	90.4	36.4	61.8	39.6	93.8	35.9
	C. Home improvement							
2000	6.3	1.1	15.6	4.7	4.4	.4	52.9	.5
2001	6.4	1.5	22.3	7.6	3.9	.8	73.7	1.1
2002	5.9	1.4	28.4	7.1	4.0	.9	55.3	3.6
2003	10.5	.8	43.8	6.7	6.5	.7	35.0	3.9
2004	23.6	6.0	48.7	23.5	23.1	7.5	20.2	7.4
2005	27.2	7.0	46.2	25.3	30.2	8.8	27.1	8.6
2006	22.0	5.3	60.4	31.8	29.4	8.9	29.5	15.9
2007	19.1	6.4	70.6	30.8	26.4	12.1	39.0	11.9
2008	14.7	8.7	80.0	49.2	20.0	14.5	74.7	6.3
2009	25.0	17.4	63.8	37.3	18.2	13.3	55.4	9.6

1. See note to table 3.
2. Loans sold to government-sponsored enterprises (GSEs) include those with a purchaser type of Fannie Mae, Freddie Mac, Ginnie Mae, or Farmer Mac.

Loan Pricing." This change makes it inappropriate to present the pricing information in one consolidated table. Tables 8.A and 8.B provide information on preapprovals over the corresponding time periods.

Disposition of Applications

As noted, the 2009 HMDA data include information on nearly 15 million loan applications, about 85 percent of which were acted upon by the lender (data derived from combining tables 7.A and 7.B). Patterns of denial rates are largely consistent with what has been observed in earlier years.[14] Denial rates on applications for home-purchase loans are notably lower than those observed on applications for either refinance or home-improvement loans. Denial rates on applications backed by manufactured housing are much higher than those on applications backed by

14. The information provided in the tables is identical to that provided in analyses of earlier years of HMDA data except for the division of the data by the date of application. Comparisons of the numbers in these two tables with those in the tables from earlier years, including denial rates, can be made by consulting the following articles: Robert B. Avery, Neil Bhutta, Kenneth P. Brevoort, Glenn B. Canner, and Christa N. Gibbs (2010), "The 2008 HMDA Data: The Mortgage Market during a Turbulent Year," *Federal Reserve Bulletin*, vol. 95, pp. A169–A211; Robert B. Avery, Kenneth P. Brevoort, and Glenn B. Canner (2008), "The 2007 HMDA Data," *Federal Reserve Bulletin*, vol. 94, pp. A107–A146; Robert B. Avery, Kenneth P. Brevoort, and Glenn B. Canner (2007), "The 2006 HMDA Data," *Federal Reserve Bulletin*, vol. 93, pp. A73–A109; Robert B. Avery, Kenneth P. Brevoort, and Glenn B. Canner (2006), "Higher-Priced Home Lending and the 2005 HMDA Data," *Federal Reserve Bulletin*, vol. 92, pp. A123–A166; and Robert B. Avery, Glenn B. Canner, and Robert E. Cook (2005), "New Information Reported under HMDA and Its Application in Fair Lending Enforcement," *Federal Reserve Bulletin*, vol. 91, pp. 344–94.

site-built homes. For example, the denial rate for first-lien conventional home-purchase loan applications for owner-occupied site-built properties was 15.7 percent in 2009, compared with a denial rate of 59.0 percent for first-lien conventional home-purchase loan applications for owner-occupied manufactured homes (data derived from tables 7.A and 7.B).

In addition to the application data provided under HMDA, nearly 560,000 requests for preapproval were reported under HMDA as acted on by the lender (data derived from tables 8.A and 8.B). About one-fourth of these requests for preapproval were denied by the lender. Not surprisingly, the number of requests for preapproval is down substantially from the levels recorded at the height of the housing boom. In 2006, covered institutions reported that they received nearly 1.2 million requests for preapproval upon which they took action (data not shown in tables).

Loan Pricing

The collapse of the subprime and near-prime credit markets in 2007 resulted in a sharp curtailment of lending at relatively high interest rates, a market outcome reflected in the 2007 and 2008 HMDA data, which show a marked decline in the number of loans that were classified for purposes of reporting as higher priced. A review of the 2008 HMDA data also revealed that a substantial fraction of loans extended in 2008 that were reported as higher priced were so classified because of atypical changes in the interest rate environment rather than because the loans represented relatively high credit risk.[15]

The 2009 HMDA data continue to show that the level of higher-priced lending is greatly diminished from the levels reached in 2006. The data also show that the incidence of higher-priced lending across all products in 2009 (about 5.5 percent; data derived from tables 7.A and 7.B) is not only much lower than the 28.7 percent rate found in 2006 (2006 data not shown in tables) but also about one-half of the 11.6 percent rate found in 2008 (2008 data not shown in tables). The loan pricing information within the HMDA data is explored more fully in the later section "The 2009 HMDA Data on Loan Pricing."

HOEPA Loans

The HMDA data indicate which loans are covered by the protections afforded by HOEPA. Under HOEPA, certain types of mortgage loans that have interest rates or fees above specified levels require additional disclosures to consumers and are subject to various restrictions on loan terms.[16] For 2009, 1,153 lenders reported extending 6,500 loans covered by HOEPA (tables 7.A and 7.B). In comparison, lenders reported on about 8,600 loans covered by HOEPA in 2008 (data regarding lenders not shown in tables). In the aggregate, HOEPA-related lending made up less than 0.1 percent of all the originations of home-secured refinancing loans and home-improvement loans reported for 2009 (data derived from tables).[17]

The 2009 HMDA Data on Loan Pricing

As noted, the rules governing whether or not a loan is classified as higher priced under HMDA were changed in 2008, with implementation affecting loan classifications for the 2009 data. The purpose of the rule change was to address concerns that had arisen about the distortive effects of changes in the interest rate environment on the reporting of higher-priced lending under the original methodology.[18] Because of changes in underlying market rates of interest, two loans of equivalent credit or prepayment risk could be classified differently at different points in time, an outcome that was unintended.

The rules for reporting loan pricing information under HMDA were originally adopted in 2002, covering lending beginning in 2004. Under these rules (the "old rules"), lenders were required to compare the APR on a loan to the yield on a Treasury security with a comparable term to maturity to determine whether the loan should be considered higher priced: If the difference exceeded 3 percentage points for a first-lien loan or 5 percentage points for a junior-lien loan, the loan was classified as higher priced and the rate spread (the amount of the difference) was reported.

Analysis of the HMDA data revealed that the original loan pricing classification methodology created unintended distortions in reporting. Since most mortgages prepay well before the stated term of the loan, lenders typically use relatively shorter-term interest rates when setting the price of mortgage loans. For example, lenders often price 30-year fixed-rate mort-

15. See Avery and others, "The 2008 HMDA Data: The Mortgage Market during a Turbulent Year," in note 14.

16. The requirement to report HOEPA loans in the HMDA data relates to whether the loan is subject to the original protections of HOEPA, as determined by the coverage test in the Federal Reserve Board's Regulation Z, 12 C.F.R. pt. 226.32(a). The required reporting is not triggered by the more recently adopted protections for "higher-priced mortgage loans" under Regulation Z, notwithstanding that those protections were adopted under authority given to the Board by HOEPA. See 73 Fed. Reg. 44522 (July 30, 2008).

17. HOEPA does not apply to home-purchase loans.

18. The potential for such distortions is discussed in prior research; for example, see Avery, Brevoort, and Canner, "Higher-Priced Home Lending and the 2005 HMDA Data," in note 14.

7. Disposition of applications for home loans, and origination and pricing of loans, by type of home and type of loan, 2009

A. Loans with application dates before October 1, 2009, threshold change

Type of home and loan	Applications				Loans originated										
	Number submitted	Acted upon by lender			Number	Loans with APR spread above the threshold[1]									
						Number	Percent	Distribution, by percentage points of APR spread					APR spread (percentage points)		Number of HOEPA-covered loans[2]
		Number	Number denied	Percent denied				3-3.99	4-4.99	5-6.99	7-8.99	9 or more	Mean	Median	
1–4 Family															
Nonbusiness Related[3]															
Owner occupied															
Site built															
Home purchase															
Conventional															
First lien	1,415,449	1,229,153	189,822	15.4	944,844	45,160	4.8	47.9	23.4	24.0	3.8	.9	4.4	4.1	...
Junior lien	51,521	45,929	7,302	15.9	34,828	7,063	20.3	...	...	91.8	7.1	1.2	5.9	5.7	...
Government backed															
First lien	1,588,919	1,403,515	208,478	14.9	1,125,063	56,504	5.0	88.5	7.6	3.7	.1	.1	3.5	3.3	...
Junior lien	1,581	1,379	98	7.1	1,247	4	.3	...	...	50.0	25.0	25.0	8.3	6.4	...
Refinance															
Conventional															
First lien	6,218,103	5,309,600	1,144,080	21.5	3,806,948	120,408	3.2	48.9	21.3	20.0	9.0	.8	4.5	4.0	1,885
Junior lien	166,847	148,366	44,552	30.0	95,851	20,522	21.4	...	...	79.3	15.2	5.5	6.3	5.9	397
Government backed															
First lien	1,757,425	1,381,014	425,250	30.8	854,630	61,060	7.1	92.6	5.5	1.8	.1	.0	3.4	3.2	284
Junior lien	813	607	149	24.5	420	7	1.7	...	...	71.4	28.6	.0	6.1	5.4	...
Home improvement															
Conventional															
First lien	267,265	227,387	70,564	31.0	142,781	28,122	19.7	37.0	25.2	24.3	11.7	1.9	4.9	4.5	840
Junior lien	164,257	140,543	62,187	44.2	71,000	12,010	16.9	...	...	73.6	17.8	8.5	6.6	6.0	465
Government backed															
First lien	16,073	12,716	4,817	37.9	6,868	818	11.9	70.4	10.4	14.2	5.0	.0	4.0	3.4	5
Junior lien	5,171	4,447	1,783	40.1	2,103	1,659	78.9	...	...	32.5	51.8	15.7	7.6	7.5	12
Unsecured (conventional or government backed)	181,904	177,263	78,924	44.5	77,557	...	...	...	...	...	...	...	...	...	...
Manufactured															
Conventional, first lien															
Home purchase	166,420	159,732	92,937	58.2	37,065	28,261	76.2	15.6	18.3	34.2	17.7	14.2	6.4	5.9	...
Refinance	70,219	60,693	23,879	39.3	31,150	15,956	51.2	17.0	17.7	36.2	24.0	5.1	6.0	5.8	1,298
Other	108,369	95,393	36,314	38.1	48,872	9,719	19.9	44.1	15.5	26.1	10.5	3.8	5.0	4.3	449
Non-owner occupied[4]															
Conventional, first lien															
Home purchase	338,882	297,621	53,181	17.9	221,421	19,405	8.8	56.5	21.7	16.2	3.9	1.6	4.3	3.8	...
Refinance	504,929	426,480	123,753	29.0	275,839	14,449	5.2	49.1	21.6	22.7	5.2	1.4	4.5	4.0	105
Other	72,823	62,448	23,500	37.6	36,035	4,466	12.4	25.4	14.8	44.1	12.0	3.7	5.5	5.4	54
Business Related[3]															
Conventional, first lien															
Home purchase	30,659	29,666	1,095	3.7	27,915	1,152	4.1	30.1	31.7	31.6	4.7	1.9	4.9	4.6	...
Refinance	31,974	30,888	1,828	5.9	28,455	1,064	3.7	32.0	30.6	33.0	4.0	.6	4.8	4.6	6
Other	14,483	12,435	1,604	12.9	10,516	419	4.0	49.2	13.8	28.6	5.7	2.6	4.7	4.0	9
Multifamily[5]															
Conventional, first lien															
Home purchase	7,161	6,504	956	14.7	5,229	215	4.1	47.0	31.6	18.1	2.3	.9	4.3	4.1	...
Refinance	12,067	11,118	1,886	17.0	8,704	449	5.2	48.3	29.8	19.2	2.5	.2	4.3	4.0	...
Other	4,085	3,683	573	15.6	2,994	114	3.8	43.0	23.7	29.8	3.5	.0	4.4	4.0	1
Total	**13,197,399**	**11,278,580**	**2,599,512**	**23.0**	**7,898,335**	**449,006**	**5.7**	**51.2**	**15.5**	**23.3**	**7.7**	**2.3**	**4.6**	**3.9**	**5,810**

1. Annual percentage rate (APR) spread is the difference between the APR on the loan and the yield on a comparable-maturity Treasury security. The threshold for first-lien loans is a spread of 3 percentage points; for junior-lien loans, it is a spread of 5 percentage points.
2. Loans covered by the Home Ownership and Equity Protection Act of 1994 (HOEPA), which does not apply to home-purchase loans.
3. Business-related applications and loans are those for which the lender reported that the race, ethnicity, and sex of the applicant or co-applicant are "not applicable"; all other applications and loans are nonbusiness related.
4. Includes applications and loans for which occupancy status was missing.
5. Includes business-related and nonbusiness-related applications and loans for owner-occupied and non-owner-occupied properties.
... Not applicable.

gages based on the yields on securities with maturities of fewer than 10 years, and they typically set interest rates on adjustable-rate mortgages (ARMs) based on the yields on securities with much shorter terms. Thus, a change in the relationship between shorter- and longer-term yields affected the reported incidence of

7. Disposition of applications for home loans, and origination and pricing of loans, by type of home and type of loan, 2009

B. Loans with application dates on or after October 1, 2009, threshold change

Type of home and loan	Applications				Loans originated											
	Number submitted	Acted upon by lender			Number	Loans with APR spread above the threshold[1]										
						Number	Percent	Distribution, by percentage points of APR spread						APR spread (percentage points)		Number of HOEPA-covered loans[2]
		Number	Number denied	Percent denied				1.5-1.99	2-2.49	2.5-2.99	3-3.99	4-4.99	5 or more	Mean	Median	
1–4 FAMILY																
NONBUSINESS RELATED[3]																
Owner occupied																
Site built																
Home purchase																
Conventional																
First lien	202,357	178,384	31,573	17.7	139,640	4,867	3.5	37.9	22.6	16.5	14.1	4.7	4.2	2.6	2.2	...
Junior lien	9,810	8,879	1,575	17.7	6,887	1,058	15.4	...	...	...	33.7	53.6	12.7	4.8	4.2	...
Government backed																
First lien	239,838	214,617	37,866	17.6	170,716	2,447	1.4	78.6	11.4	4.3	.8	.3	4.7	2.0	1.7	...
Junior lien	266	226	26	11.5	194	5	2.6	...	...	...	40.0	60.0	.0	4.2	4.3	...
Refinance																
Conventional																
First lien	747,592	630,921	158,935	25.2	442,401	9,982	2.3	32.7	19.6	13.6	15.3	6.7	12.1	3.0	2.4	188
Junior lien	27,587	25,102	8,773	34.9	15,242	1,589	10.4	...	...	...	30.7	37.3	32.1	4.9	4.4	63
Government backed																
First lien	244,580	192,941	62,850	32.6	120,499	3,938	3.3	38.3	39.5	14.1	5.6	1.2	1.3	2.2	2.1	26
Junior lien	110	87	21	24.1	64	4	6.3	...	...	...	100.0	.0	.0	3.6	3.6	4
Home improvement																
Conventional																
First lien	37,213	32,246	12,870	39.9	17,868	3,026	16.9	24.3	19.6	15.9	16.5	7.6	16.1	3.3	2.7	111
Junior lien	31,575	28,179	14,818	52.6	12,283	1,052	8.6	...	...	...	30.4	29.3	40.3	5.4	4.6	48
Government backed																
First lien	2,120	1,507	558	37.0	868	149	17.2	20.1	36.2	14.1	5.4	16.1	8.1	2.9	2.4	1
Junior lien	1,898	1,597	1,234	77.3	306	235	76.8	...	...	...	3.4	18.3	78.3	6.3	6.6	0
Unsecured (conventional or government backed)	35,729	34,787	16,783	48.2	17,100	...	...	...	...	...	...	...	...	...	...	...
Manufactured																
Conventional, first lien																
Home purchase	34,721	33,794	21,150	62.6	5,856	4,358	74.4	5.8	5.8	8.4	21.5	19.0	39.6	4.9	4.4	...
Refinance	9,928	8,994	4,100	45.6	4,367	2,023	46.3	12.5	11.1	15.0	24.2	15.8	21.5	3.9	3.5	180
Other	14,052	12,238	5,812	47.5	5,065	870	17.2	20.9	15.2	12.1	23.0	9.1	19.8	3.8	3.1	56
Non-owner occupied[4]																
Conventional, first lien																
Home purchase	51,440	45,689	8,571	18.8	35,126	1,928	5.5	37.6	19.4	14.3	16.1	6.5	6.2	2.7	2.3	...
Refinance	71,950	59,462	19,284	32.4	37,897	1,584	4.2	36.1	21.3	15.7	14.5	6.1	6.3	2.7	2.3	11
Other	13,935	12,273	5,357	43.6	6,545	515	7.9	18.1	13.0	12.6	23.3	15.5	17.5	3.6	3.2	4
BUSINESS RELATED[3]																
Conventional, first lien																
Home purchase	5,251	5,120	217	4.2	4,843	188	3.9	19.7	30.3	21.8	20.7	3.2	4.3	2.7	2.5	...
Refinance	5,328	5,195	291	5.6	4,867	216	4.4	25.9	27.3	21.3	16.7	6.0	2.8	2.6	2.4	0
Other	2,285	2,093	307	14.7	1,759	27	1.5	11.1	33.3	11.1	18.5	14.8	11.1	3.2	2.7	0
MULTIFAMILY[5]																
Conventional, first lien																
Home purchase	985	910	151	16.6	733	57	7.8	49.1	22.8	12.3	12.3	1.8	1.8	2.3	2.0	...
Refinance	1,425	1,336	228	17.1	1,073	64	6.0	23.4	40.6	15.6	10.9	1.6	7.8	2.6	2.2	0
Other	534	515	105	20.4	402	5	1.2	40.0	20.0	.0	40.0	.0	.0	2.4	2.1	0
Total	**1,792,509**	**1,537,092**	**413,455**	**26.9**	**1,052,601**	**40,187**	**3.8**	**28.7**	**17.7**	**11.9**	**16.2**	**10.6**	**14.9**	**3.3**	**2.6**	**692**

NOTE: See notes to table 7.A.

higher-priced lending. For example, when short-term interest rates fell relative to long-term rates, the number and proportion of loans reported as higher priced fell even when other factors, such as lenders' underwriting practices or borrowers' credit risk or prepayment characteristics, remained unchanged.

For ARMs, this effect was further exacerbated by the manner in which APRs are calculated. The interest rates on most ARM loans, after the initial interest rate reset date, are set based on the interest rate for one-year securities. As a result, the APRs for ARMs, which take into account the expected interest rates on a loan

8. Home-purchase lending that began with a request for preapproval: Disposition and pricing, by type of home, 2009

A. Loans with application dates before October 1, 2009, threshold change

Type of home	Requests for preapproval			Applications preceded by requests for preapproval[1]			Loan originations whose applications were preceded by requests for preapproval									
					Acted upon by lender			Loans with APR spread above the threshold[2]								
										Distribution, by percentage points of APR spread					APR spread (percentage points)	
	Number acted upon by lender	Number denied	Percent denied	Number submitted	Number	Number denied	Number	Number	Percent	3-3.99	4-4.99	5-6.99	7-8.99	9 or more	Mean spread	Median spread
1–4 FAMILY																
NONBUSINESS RELATED[3]																
Owner occupied																
Site built																
Conventional																
First lien	264,145	70,550	26.7	154,432	23,986	17,069	104,841	2,303	2.2	66.4	19.8	11.5	2.0	.4	3.9	3.5
Junior lien	5,928	1,075	18.1	4,134	309	127	3,486	922	26.4	...	...	93.8	5.5	.7	5.9	5.8
Government backed																
First lien	184,995	47,817	25.8	124,553	12,744	10,544	96,314	4,789	5.0	85.6	10.5	3.6	.2	.1	3.6	3.3
Junior lien	114	12	10.5	96	14	15	65	1	1.5	...	...	100.0	.0	.0	5.0	5.0
Manufactured																
Conventional, first lien	5,618	1,400	24.9	3,829	361	918	2,117	1,340	63.3	14.4	19.9	24.8	14.9	26.1	7.5	6.2
Other	2,733	709	25.9	1,969	606	266	1,006	93	9.2	85.0	12.9	2.0	.0	.0	3.5	3.4
Non-owner occupied[4]																
Conventional, first lien	33,198	8,109	24.4	21,047	3,020	2,057	14,767	800	5.4	62.3	21.6	12.6	2.3	1.3	4.1	3.7
Other	1,646	216	13.1	1,393	179	136	1,064	14	1.3	14.3	.0	95.7	.0	.0	5.4	5.5
BUSINESS RELATED[3]																
Conventional, first lien	573	13	2.3	550	59	85	385	36	9.4	33.3	30.6	33.3	2.8	.0	4.8	4.5
Other	123	8	6.5	114	14	21	74	2	2.7	100.0	.0	.0	.0	.0	3.3	3.3
MULTIFAMILY[5]																
Conventional, first lien	98	6	6.1	85	15	4	63	6	9.5	50.0	33.3	16.7	.0	.0	4.1	4.1
Other	35	0	.0	33	13	4	16	2	12.5	50.0	50.0	.0	.0	.0	4.0	4.0
Total	**499,206**	**129,915**	**26.0**	**312,235**	**41,320**	**31,246**	**224,198**	**10,308**	**4.6**	**62.3**	**13.8**	**17.1**	**3.1**	**3.7**	**4.4**	**3.6**

1. These applications are included in the total reported in table 7.A.
2. See table 7.A, note 1.
3. See table 7.A, note 3.
4. See table 7.A, note 4.
5. See table 7.A, note 5.
... Not applicable.

assuming that the loan does not prepay and that the index rates used to establish interest rates after the reset do not change, will be particularly sensitive to changes in one-year interest rates. Consequently, the share of ARMs reported as higher priced fell when one-year rates declined relative to other rates even if the relationship between long- and intermediate-term rates remained constant.

To address these distortions, the price-reporting rules under HMDA were modified (the "new rules"). For applications taken beginning October 1, 2009 (and for all loans that close on or after January 1, 2010), lenders compare the APR on the loan with the estimated APR (termed the "average prime offer rate" (APOR)) that a high-quality prime borrower would receive on a loan of a similar type (for example, a 30-year fixed-rate mortgage). The APOR is estimated using the interest rates and points (and margin for ARMs) reported by Freddie Mac in its Primary Mortgage Market Survey (PMMS).[19] If the difference is more than 1.5 percentage points for a first-lien loan or more than 3.5 percentage points for a junior-lien loan, then the loan is classified as higher priced and the rate spread is reported.[20] Since APORs move with changes in market rates and are product specific, it is anticipated that the distortions that existed under the old rules will be greatly reduced.

19. The weekly Freddie Mac Primary Mortgage Market Survey reports the average contract rates and points for all loans and the margin for adjustable-rate loans for loans offered to prime borrowers (those that pose the lowest credit risk). The survey currently reports information for two fixed-rate mortgage products (30-year and 15-year terms) and two ARM products (1-year adjustable rate and 5-year adjustable rate). See Freddie Mac, "Weekly Primary Mortgage Market Survey," webpage, www.freddiemac.com/dlink/html/PMMS/display/PMMSOutputYr.jsp.

20. For more details, see Federal Financial Institutions Examination Council, "FFIEC Rate Spread Calculator," webpage, www.ffiec.gov/ratespread/default.aspx.

8. Home-purchase lending that began with a request for preapproval: Disposition and pricing, by type of home, 2009

B. Loans with application dates on or after October 1, 2009, threshold change

Type of home	Requests for preapproval			Applications preceded by requests for preapproval[1]			Loan originations whose applications were preceded by requests for preapproval										
					Acted upon by lender			Loans with APR spread above the threshold[2]									
										Distribution, by percentage points of APR spread						APR spread (percentage points)	
	Number acted upon by lender	Number denied	Percent denied	Number submitted	Number	Number denied	Number	Number	Percent	1.5-1.99	2-2.49	2.5-2.99	3-3.99	4-4.99	5 or more	Mean spread	Median spread
1–4 FAMILY																	
NONBUSINESS RELATED[3]																	
Owner occupied																	
Site built																	
Conventional																	
First lien	27,846	9,514	34.2	16,333	2,102	2,950	10,808	50	.5	.0	.0	.0	58.0	18.0	24.0	4.3	3.6
Junior lien	1,072	243	22.7	751	53	20	650	219	33.7	...	...	...	32.4	63.5	4.1	4.3	4.2
Government backed																	
First lien	22,587	7,905	35.0	13,922	1,023	1,652	10,968	4	.0	.0	.0	.0	50.0	.0	50.0	5.9	4.2
Junior lien	19	2	10.5	17	2	4	11	1	9.1	...	...	...	.0	100.0	.0	4.9	4.9
Manufactured																	
Conventional, first lien	2,310	289	12.5	2,011	160	820	736	326	44.3	.0	.0	.0	20.6	20.3	59.2	6.8	5.8
Other	264	101	38.3	162	24	24	110	0	.0	...	...	...	...	...	...	...	...
Non-owner occupied[4]																	
Conventional, first lien	3,651	948	26.0	2,524	287	334	1,829	22	1.2	.0	.0	.0	59.1	22.7	18.2	4.6	3.7
Other	187	44	23.5	140	19	23	96	0	.0	...	...	...	...	...	...	...	...
BUSINESS RELATED[3]																	
Conventional, first lien	79	4	5.1	74	3	10	61	3	4.9	.0	.0	.0	66.7	33.3	.0	3.6	3.1
Other	13	1	7.7	12	2	4	6	0	.0	...	...	...	...	...	...	...	...
MULTIFAMILY[5]																	
Conventional, first lien	15	0	.0	13	2	3	6	0	.0	...	...	...	...	...	...	...	...
Other	3	0	.0	3	0	1	1	0	.0	...	...	...	...	...	...	...	...
Total	**58,046**	**19,051**	**32.8**	**35,962**	**3,677**	**5,845**	**25,282**	**625**	**2.5**	**.0**	**.0**	**.0**	**29.4**	**35.4**	**35.2**	**5.7**	**4.6**

1. These applications are included in the total reported in table 7.B.
2. See table 7.A, note 1.
3. See table 7.A, note 3.
4. See table 7.A, note 4.
5. See table 7.A, note 5.

... Not applicable.

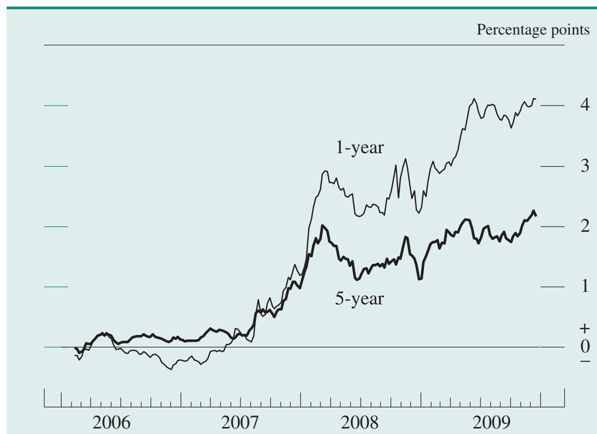
Since the new reporting rules applied only to loans with application dates on or after October 1, both reporting rules were in effect during the fourth quarter of 2009. For loans that originated in the fourth quarter, the old threshold was used if their application date was before October 1, and the new threshold was used otherwise. Since the reported spreads for the old and new rules are relative to different reporting thresholds, the data are not directly comparable.[21] Therefore, we conduct our analysis of the pricing data for each reporting regime separately.

The Old Price Reporting Rules

As mentioned, under the rules that governed HMDA at the beginning of 2009, a change in the relationship between shorter- and longer-term yields could affect the reported incidence of higher-priced lending. The relationship between shorter- and longer-term interest rates can be seen in the yield curve for Treasury securities, which displays how the yields on these securities vary with the term to maturity. The slope of the yield curve, which was already steep at the beginning of 2009 relative to patterns observed in previous years, continued to steepen. The difference between the yield on a 30-year Treasury security and that on a 1-year Treasury security increased sharply in the early portion of the year and remained well above the levels observed from 2006 through 2008 (figure 2). While the difference between the yields on the 30-year and 5-year Treasury securities did not increase as sharply, in 2009 this difference remained consistently above the levels generally observed in the previous three years. As discussed above, this change would be expected to decrease the incidence of reported higher-priced lending, particularly for ARMs, even in the absence of any changes in high-risk lending activity.

21. The 2009 public HMDA data release contains a variable indicating whether the loan or application was subject to the old or new pricing rules.

2. Spreads on Treasury bonds, 2006–09

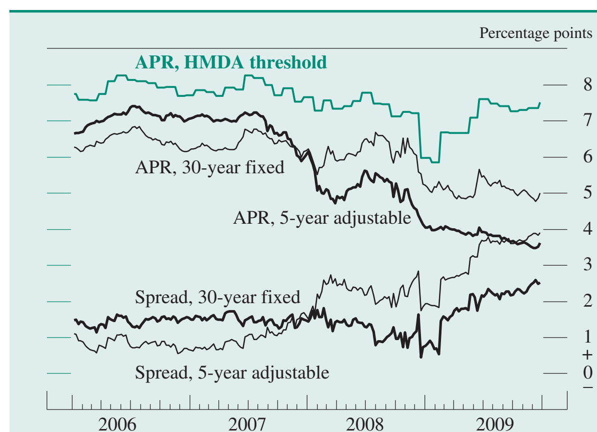


NOTE: The data are weekly, and the spreads are over 30-year Treasury bonds. Prior to mid-February 2006, the 30-year Treasury bond was not available, and the data are missing.

SOURCE: Federal Reserve Board, Statistical Release H.15, www.federalreserve.gov/releases/h15/current/h15.htm.

In 2008, the decrease in the incidence of higher-priced lending that would be expected to follow a steepening yield curve was mitigated by the “flight to quality” and liquidity concerns that were caused by the financial crisis in late 2008. This development resulted in the yields on Treasury securities falling relative to rates on other securities, including mortgage loans. As a result, the spread between the HMDA reporting threshold and the APR on a 30-year fixed-rate prime loan, based on the rates reported by Freddie Mac’s PMMS, fell during most of 2008 (figure 3). This pattern carried into 2009 but began to reverse itself early in the year, and by midyear the spreads between the HMDA reporting threshold and the APRs on the 30-year fixed-rate and 5-year ARM from the PMMS had increased to levels well above those observed in the previous three years.

3. HMDA price-reporting threshold, interest rates for fixed- and adjustable-rate loans, and spreads between the threshold and such rates, 2006–09



NOTE: For explanation of Home Mortgage Disclosure Act (HMDA) price-reporting threshold, see text. The threshold and annual percentage rates (APRs) are for conventional first-lien 30-year prime loans.

SOURCE: APRs from the Freddie Mac Primary Mortgage Market Survey; see note to figure 1.

The historically high spreads between mortgage rates for prime-quality borrowers (reflected by the APRs calculated from the PMMS) and the HMDA reporting threshold imply that the incidence of higher-priced lending in 2009 would be below the levels for earlier years, even if high-risk lending activity had remained the same. Furthermore, the increasing spreads over 2009 suggest that loans of a given credit risk that may have been reported as higher priced earlier in the year may not have been so reported later in the year. This possibility makes drawing inferences about changes in high-credit-risk lending based upon changes in the incidence of reported higher-priced lending much more complicated.

In analyzing HMDA data from previous years in which the yield curve changed substantially, we relied on a methodology that used a different definition of a “higher-priced loan” that is less sensitive to yield curve changes and, therefore, more fully reflective of high-risk lending activity. This methodology defines the credit risk component of a loan as the difference between the APR on that loan and the APR available to the lowest-risk prime borrowers at that time. This credit risk component is assumed to be constant over time. In other words, we assume that a nonprime borrower who received a loan with an APR that was 1.25 percentage points above the APR available to prime borrowers at that time would receive, if the nonprime borrower’s characteristics remained constant, a loan that was 1.25 percentage points above the available rate for prime borrowers at all other times, regardless of any changes in the interest rate environment. We then examine the share of loans with credit risk components that are above specific thresholds. The approach of creating a threshold that is set relative to the mortgage rates that are available to prime-quality borrowers is similar to the new HMDA reporting rules and should provide a more accurate depiction of the extent to which high-risk lending has changed; for instance, the lending data under the new rules are relatively free of the distortions introduced in the incidence of reported higher-priced lending by changes in the interest rate environment.

In estimating the credit risk component of loans in the HMDA data, we use, as the measure of the rate available to prime borrowers, the APR derived from the information reported in the Freddie Mac PMMS

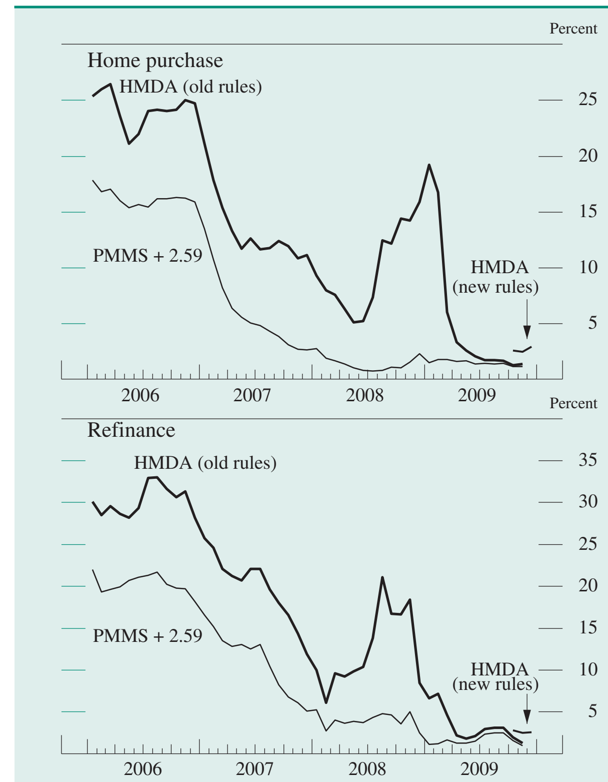
for a 30-year fixed-rate loan.[22] As an approximation of the APR on loans in the HMDA data, we add the reported spread (for higher-priced loans) to the appropriate HMDA reporting threshold for a 30-year loan. We refer to the resulting estimate of the credit risk component as the "PMMS spread." Because of the large spreads in 2009 between the HMDA reporting threshold and the APRs on prime-quality 30-year fixed-rate loans, only those loans with a PMMS spread in excess of 2.59 percentage points would have been reported as higher priced under HMDA at all points during 2009. Therefore, this spread is the minimum PMMS spread that can be used as a threshold. We refer to loans with a PMMS spread of 2.59 percentage points or higher as "adjusted higher priced" loans.

The share of loans reported as higher priced under the old HMDA reporting rules in 2009 (taken as a whole) was low. Among first-lien loans secured by one- to four-family properties, 4.7 percent were higher priced in 2009, down significantly from the historic high point of 27.2 percent in 2006 and from 10.7 percent in 2008. The decline in the incidence of higher-priced lending was observed for all types of lenders.

Looking exclusively at changes in the annual rates of higher-priced lending can obscure the information about how the mortgage market is developing over time. To better illustrate how changes in higher-priced lending have played out in recent years, we examined monthly patterns in higher-priced lending activity. The monthly data show that the incidence of reported higher-priced home-purchase lending fell over the course of 2009 (figure 4, top panel; see line labeled "HMDA (old rules)"). A similar decline is observed for refinance loans, though the incidence of reported higher-priced refinance lending ticked up slightly in the latter portion of the year (figure 4, bottom panel).

As discussed, this decline in reported higher-priced lending is expected given the increasing spread between mortgage rates and the HMDA reporting threshold. Using our methodology to correct for distortions caused by changes in the interest rate environment, we find that the share of adjusted higher-priced loans (shown in figure 4) was relatively flat for home-purchase lending in 2009, suggesting that the decline in the incidence of reported higher-priced lending in the HMDA data for that period largely reflected changes

4. Higher-priced share of lending, by annual percentage rate threshold, 2006–09



NOTE: The data are monthly. Loans are first-lien mortgages for site-built properties and exclude business loans. Annual percentage rates are for conventional 30-year fixed-rate prime mortgages. For explanations of old and new pricing rules, see text.
PMMS Freddie Mac Primary Mortgage Market Survey.
HMDA Home Mortgage Disclosure Act.

in the interest rate environment. The share of refinance loans that were considered adjusted higher priced in 2009 also remained at historically low levels. The small increase observed in the incidence of higher-priced lending in 2009 appears to reflect an actual increase in high-risk lending, though the increase was small and short lived. These figures suggest that lending to higher-risk borrowers, which declined sharply beginning in 2007, remained at low levels during the year, with little indication that lending to such borrowers has begun to rebound. However, it is important to note that the PMMS spread that we use in this analysis is significantly higher than the PMMS spreads we have employed in previous years, and this threshold may not capture a considerable share of lending to high-risk borrowers.

The New Price Reporting Rules

The new price reporting rules, which apply to loans originated during 2009 with application dates from October to December, use reporting thresholds that

22. By using the APR for the 30-year fixed-rate mortgage, we are implicitly treating all loans in the HMDA data as though they were 30-year fixed-rate loans. Data from large mortgage servicers provided by Lender Processing Services, Inc., show that less than 1 percent of first-lien mortgages in 2009 were ARMs. Because of the rarity of ARMs and the prevalence of 30-year loans, we do not expect our assumption to substantially distort the analysis.

are based on the prevailing mortgage interest rates at the time a loan's interest rate is locked. The threshold is similar to the one used earlier to adjust for changes in the interest rate environment, though it has two major advantages over our measure. First, the new-rule threshold varies with the initial period over which a loan's interest rate does not change, which means that the reporting threshold for ARMs can be set lower (or higher) than the threshold for 30-year fixed-rate loans. In the preceding analysis, because we could not distinguish fixed-rate from ARM loans (or between types of ARMs), we had to assume that all loans originated during 2009 were fixed rate. Analyses of the data reported using the new rules do not need to rely on such an assumption. The second advantage is that because lenders know the APR on the loan when comparing it with the threshold, whereas we could only approximate a loan's APR when it was reported as higher priced under the old rules, the reporting threshold is not constrained by the maximum PMMS spread that was in effect over the period being examined. Consequently, the spread that governs reporting is lower than we could use in our attempt to correct the old reporting rules for changes in the interest rate environment. The result should be a more accurate depiction of subprime lending activity that is less sensitive to changes in the interest rate environment.

As discussed, the new rules applied only to a fraction of originated loans reported during the year. The new rules applied to less than 15 percent of loans originated in October, 62 percent of those originated in November, and 85 percent of those originated in December (data not shown in tables). The shares of these loans that were reported as higher priced during this period are shown in the two panels of figure 4. The higher incidences observed under the new reporting rules primarily appear to reflect the large spreads in effect during 2009 between mortgage rates for prime borrowers and the old HMDA reporting threshold that reduced reporting under the old rules. Beyond that, it is difficult to compare the two numbers, as they are spreads relative to two different thresholds. Since we observe the incidences for such a short period, we are unable to make any inferences about the volume of subprime lending activity other than that it seems to have been relatively stable over this three-month period. However, beginning with the 2010 HMDA data, when the new reporting rules will apply to all originated loans, we expect these rules to provide a more accurate and consistent depiction of lending activity to high-risk borrowers.

The Changing Role of Government in the Mortgage Market

The share of new mortgage loans either explicitly or implicitly guaranteed by the federal government has risen dramatically since 2006. We estimate that by the end of 2009, almost 6 out of 10 new owner-occupied home-purchase loans were originated through the FHA, VA, and, to a much lesser extent, the FSA or RHS programs, with a similar percentage of new refinance mortgages either owned outright or in mortgage pools guaranteed by Fannie Mae or Freddie Mac. This section will discuss the underlying causes of this trend. To facilitate our analysis, we employ a revised data set designed to correct for one of the limitations in the HMDA reporting system.

Under HMDA reporting rules, all loans originated under the FHA, VA, FSA, or RHS programs must be identified as such.[23] However, loans placed in pools that are guaranteed by or sold to the housing-related government-sponsored enterprises, Fannie Mae and Freddie Mac, are identified only if they are sold directly to the GSEs or directly placed in a pool during the same year of the loan origination. The HMDA data therefore tend to undercount loans sold to the GSEs for two reasons. First, sales can take place in a year subsequent to origination, especially among loans originated during the fourth quarter. Second, lenders may not sell loans directly to the GSEs but instead may sell them to other financial institutions that form mortgage pools for which investors subsequently obtain GSE credit guarantees.

For the analysis in this section, we adjust the HMDA data to attempt to correct for the undercount of GSE loans. First, financial institutions are required to report under HMDA their loan purchases as well as their originations. Using information on loan size, location, date of origination, and date of purchase, we were able to match more than 50 percent of the loans that were originated from 2006 to 2009 and then sold to another financial institution to the record for the same loan in the loan purchase file. From those matched, we are then able to obtain the ultimate loan disposition from the filing of loan purchases. Of the portion we were unable to match, most were originated (and purchased) by one large organization, which supplied us with the aggregate disposition of the purchased loans. For those sold loans that we were still unable to match, we as-

23. For the 2009 reporting year, 77.3 percent of the nonconventional home-purchase loans were FHA loans, 13.9 percent were VA guaranteed, and 8.8 percent were covered under the FSA or RHS programs. For nonconventional refinance loans, 83.7 percent were FHA, 15.9 percent VA, and 0.4 percent FSA or RHS.

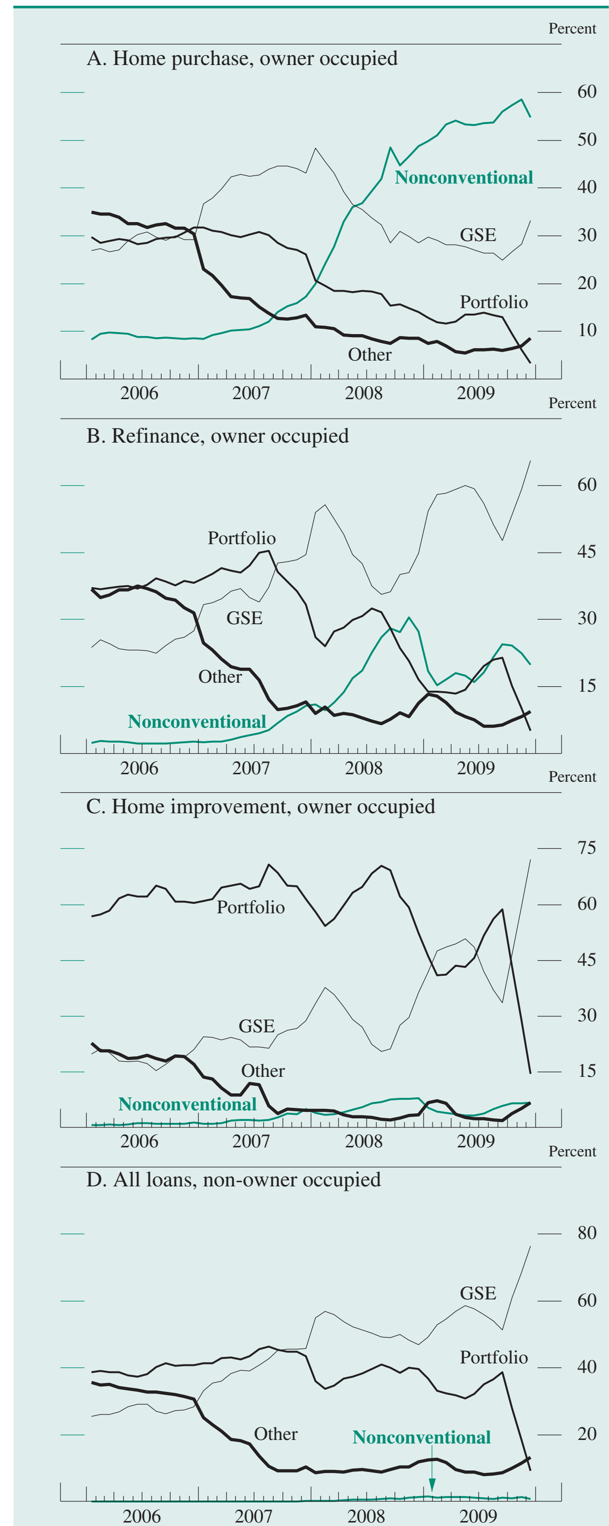
sumed that the distribution of the ultimate disposition matched the distribution of loans that we could match.

Second, to address the undercount of GSE loans originated in October through December of each year, we used an imputation formula based on the allocation of loans originated in the preceding September and the following January to assign the ultimate disposition of conventional loans.[24] The imputation was conducted separately for the 14 largest mortgage originators and took account of the characteristics of the loan, including size and location.

The changing structure of the mortgage market between 2006 and 2009 may be illustrated using our adjusted data for the four major loan types reported under HMDA (figure 5). The figure groups first-lien site-built mortgages into four distinct categories: (1) loans insured by the FHA, backed by the VA, or issued or guaranteed by the FSA or RHS ("nonconventional"); (2) conventional loans sold to Fannie Mae or Freddie Mac or placed in pools guaranteed by them ("GSE"); (3) conventional loans sold to an affiliate or held in the portfolio of the originating lender ("portfolio"); and (4) all other conventional loans, including those sold into the private securitization market or to unaffiliated institutions ("other"). Panels 5.A, 5.B, and 5.C show patterns for owner-occupied home-purchase, refinance, and home-improvement loans; panel 5.D shows patterns for all non-owner-occupied loans regardless of purpose.[25]

Our adjusted data show a greater role for the GSEs than that implied by the raw HMDA data. The raw data reported in table 6 show that 41 percent of owner-occupied refinance loans originated in 2009 were reported as sold directly to the GSEs; our revised data imply that ultimately over 57 percent of such loans were either purchased by the GSEs or placed in a mortgage pool guaranteed by them. The data in figure 5 also show that the subprime-based private securitization market declined at the end of 2006 and throughout 2007, while the GSEs gained market share. Portfolio and nonconventional market shares remained relatively constant until the end of 2007. The years 2008

5. Share of lending, by purpose of loan and occupancy status of home and by type of loan, 2006–09



NOTE: The data are monthly. Loans are first liens on one- to four-family, site-built properties and exclude business loans. For definitions of loan types, see text.

24. For 2009, only the September data were used.

25. The home-improvement and non-owner-occupied loan categories are more heterogeneous than the other two. The home-improvement category may include some "cash-out" refinance loans, which would be treated as refinancings except that some of the funds are used for home improvements, as well as smaller new loans on homes that previously had no mortgage. The non-owner-occupied category presented here is heterogeneous by construction since it includes all types of loans. As a consequence of this heterogeneity, the disposition of liens in these two categories is likely more sensitive to market changes than the refinance and home-purchase categories. The huge jump in GSE share for home-improvement and non-owner-occupied property loans at the end of 2009, for example, is probably occurring because the refinance component of each group rose as part of the late 2009 refinance boom.

and 2009 show a different dynamic, with nonconventional home-purchase market share rising dramatically. The GSEs play a much more prominent role in the refinance market, with their share rising dramatically at the beginning of 2008, falling through August, and then rising again into 2009.

These patterns reflect the actions of a number of players. Nonconventional lending has traditionally focused on the high-LTV market, offering investors mortgage insurance protection against borrower default. Private mortgage insurance companies also offer similar insurance for high-LTV conventional loans, with PMI (or some other credit enhancement) required by statute for loans with LTVs above 80 percent that are sold to the GSEs. Lenders can also choose to forgo PMI and (1) hold the loan directly or (2) issue a second lien for the portion of the loan above 80 percent (a piggyback loan) and still sell the 80 percent loan to the GSEs. The choice among PMI, public mortgage insurance, or a piggyback loan is likely to be made by borrowers (and lenders) based on the relative pricing and underwriting standards of the PMI and the nonconventional loan products. Prices and underwriting established by purchasers in the secondary market also matter. Both GSEs charge fees for loans they purchase or guarantee, with the fees varying by LTV and credit quality. The GSE, FHA, and VA programs are also subject to statutory limits on loan size, which can and have been changed. Finally, the willingness of financial institutions to hold mortgages in portfolio is likely to be sensitive to their costs of funds, their capital position, and other factors.

Many of these items have changed over the past four years and likely influenced the market outcomes. First, the Congress authorized an increase in the loan-size limits applicable for the FHA and VA programs and GSE purchases as part of the Economic Stimulus Act, passed in February 2008; it did so again as part of the Housing and Economic Recovery Act (HERA), enacted in July 2008; and it did so once more as part of the American Recovery and Reinvestment Act (ARRA), passed in February 2009.[26]

HERA also provided tax assistance (in effect, an interest-free loan) to first-time homebuyers meeting certain income conditions of up to $7,500 beginning in April 2008. ARRA updated this program, providing a tax credit of up to $8,000 for first-time homebuyers purchasing a home between January 1, 2009, and November 30, 2009. Finally, the Worker, Homeownership, and Business Assistance Act of 2009 extended the first-time homebuyer tax credit program through April 2010 and allowed certain long-term homeowners purchasing new homes to claim a tax credit of up to $6,500. By primarily targeting first-time homebuyers, these programs likely stimulated demand for high-LTV home-purchase mortgages. Moreover, an FHA loan may have had particular appeal for such borrowers because the FHA allowed borrowers to use the tax credit in advance as part of their down payment.

Second, with losses mounting in 2007 and 2008, PMI companies tightened underwriting and raised prices starting in the spring of 2008. These changes likely reduced the ability of the GSEs to purchase higher-LTV loans (loans with LTVs above 80 percent) because of the requirement that such loans carry PMI in order to be eligible for GSE purchase. The GSEs also altered their own underwriting and fee schedule in March 2008 and again in June. In particular, the GSEs stopped buying loans with LTVs in excess of 95 percent and increased prices for other high-LTV loans.[27] The increased GSE pricing for high-LTV loans was slightly modified in March 2009 but remained in place through the end of 2009. In contrast, the pricing of FHA and VA loans has been little changed from 2006, with a slight increase in pricing in September 2008.[28]

26. New standards released on March 6, 2008, raised the GSE and FHA loan-size limits to $729,750 in certain areas designated by the Department of Housing and Urban Development as "high cost." FHA loan limits were also raised above their 2007 levels to new amounts in many other areas. Prior to these changes, the GSEs could not purchase single-family home loans above $417,000 in most states, while the FHA could not insure single-family home loans above $271,050 in most areas of the country. (The GSE loan limits were higher in Alaska and Hawaii; the maximum loan size for the FHA program was as low as $200,160 in some low-cost areas.) VA loans do not have a size limit, but they do have a guarantee limit that is tied to GSE loan limits. FSA loans are also subject to different, and generally higher, limits. Only lower- or moderate-income borrowers in rural areas are eligible for RHS loans, but the loans do not have an explicit maximum size limit. The increased limits were allowed to remain in place through the end of 2009. Analysis in a previous article concluded that the increase in limits accounted for less than 10 percent of the growth of nonconventional lending in 2008; nevertheless, the limit increase likely changed the mix of borrowers using these programs. See Avery and others, "The 2008 HMDA Data: The Mortgage Market during a Turbulent Year," in note 14.

27. PMI annual premiums for loans with LTVs above 80 percent generally range from 0.30 percentage points to 1.20 percentage points, depending on LTV, credit score, and other factors (see, for example, the website of the Mortgage Guaranty Insurance Corporation at www.mgic.com). On March 1, 2008, Fannie Mae and Freddie Mac raised their one-time delivery fees for 30-year loans with LTVs above 70 percent to a range of 0.75 to 2.00 percentage points, depending on the borrower's credit score. On March 9, 2008, both GSEs added an additional fee of 0.25 percentage point for "market conditions." In June 2008, the GSEs raised their fees again, by an average of 0.50 percentage point. These fees have remained more or less unchanged since then. In the summer of 2008, many PMI companies announced further increases in their rates, particularly in markets they defined as "distressed." In some areas, it became almost impossible to obtain PMI for loans with LTVs of greater than 90 percent. Most of these restrictions remained in place for 2009.

28. For the first half of 2008, the FHA charged a flat delivery fee of 1.50 percentage points and an annual premium of 0.50 percentage point to insure 30-year mortgages. On July 14, 2008, the FHA

Both programs have limited ability to price on the basis of risk; program volumes are determined more by the actions of other market participants than by proactive decisionmaking on the programs' part. Toward the end of 2009, the FHA decided to stop making loans to borrowers with FICO scores below 580.[29] Otherwise, other than an expansion of the FHA's streamlined refinancing programs, FHA underwriting did not change substantially over this period.[30]

Other developments likely also affected market shares over the 2006–09 period. The market for private-label mortgage-backed securities essentially disappeared by the beginning of 2007, taking with it much of the subprime mortgage market.[31] Piggyback loans, which had been a popular vehicle in the high-LTV market, also largely disappeared. Finally, banking institutions may have become less willing to make long-term investments, including holding new mortgage loans in portfolio, for a variety of reasons, including uncertainty about the economic and regulatory environment going forward.

In the remainder of this section, we examine the implications of these market developments in more detail, focusing on the role of the PMI companies and the relative pricing of the conventional and nonconventional markets (for more information about PMI, see box "Private Mortgage Insurance").

PMI Companies under Strain

PMI companies generally reported large net losses in 2007 and 2008. The Mortgage Insurance Companies of America (MICA) reports that its members suffered cumulative operating losses of over $1.4 billion in 2007 and $5.8 billion in 2008, compared with operating income of just over $2 billion in both 2005 and 2006.[32] By early 2009, the stocks of several of the largest mortgage insurers had lost almost all of their value, and Standard & Poor's, a credit rating agency, reported in mid-2009 that some major mortgage insurers were at risk of breaching regulatory capital thresholds for writing new business.[33] Indeed, MICA reports that the overall risk-to-capital ratio of its members more than doubled from 9 to 19 between 2006 and 2008, approaching the regulatory maximum of 25.[34]

Mortgage insurers tightened underwriting standards considerably in 2008 and 2009, especially in company-designated "distressed areas."[35] For instance, in 2009, one major insurer began requiring a minimum FICO score of 720 in some distressed markets and 700 in other areas. It also required an LTV ratio below 90 percent and stopped providing insurance on ARMs with an initial fixed period of less than five years in all geographic areas. Another large insurer in 2009 raised its minimum credit score to 680 from 620 and stopped providing insurance on all manufactured housing. This company also set a maximum LTV ratio

implemented a risk-based insurance system with upfront fees for 30-year mortgages ranging from 1.25 to 2.25 percentage points and annual premiums from 0 to 0.55 percentage point, depending on the LTV and credit score of the borrower. The price changes, however, were rolled back by the Congress, which passed legislation prohibiting the use of a risk-based pricing system after October 1, 2008. On that date, the FHA announced a new fee schedule with an upfront fee of 1.75 percentage points and an annual premium of 0.55 percentage point for 30-year loans with LTVs of 95 percent and higher and 0.50 percentage point for those with lower LTVs. These prices prevailed for the rest of 2008 and through the spring of 2010. During the period in which the FHA charged risk-based rates (and during the post-March fixed-rate period), FHA fees were lower than those for loans purchased by the GSEs with PMI (except for borrowers with high credit scores).

Over the scope of our study period, the VA charged an upfront fee of 2.15 percentage points and no annual premium for a veteran using the program for the first time with no down payment (the dominant choice); the fee was reduced to 1.50 percentage points with a 5 percent down payment and to 1.25 percentage points with a down payment of 10 percent or more. The VA has a streamlined refinance program that allows the refinancing of a VA loan into another VA loan with little documentation and a refinance fee of 0.50 percentage point (other refinance loans have the standard fees). Throughout the study period, the RHS charged a flat upfront fee of 2.00 percentage points.

29. FICO scores are one summary measure of the credit risk posed by an individual based solely on the information contained in the credit reports maintained by the three national credit reporting agencies. FICO scores are produced using statistical models developed by Fair Isaac Corporation. A FICO score of 660 or greater is often viewed as a score range associated with prime-quality borrowers; a score less than 620 is often associated with borrowers with subprime credit quality. For more information, see www.myfico.com/CreditEducation.

30. See U.S. Department of Housing and Urban Development (2010), "Quarterly Report to Congress on FHA Single-Family Mutual Mortgage Insurance Fund Programs" (Washington: HUD, August). This report shows that the percentage of FHA loans issued to borrowers with FICO scores between 580 and 620 also fell sharply in 2009, despite the fact that the FHA did not change its underwriting standards for this group. This reduction likely reflects the actions of lenders who ceased making such loans. Only 6 percent of FHA borrowers in the fourth quarter of 2009 had a FICO score below 620.

31. According to *Inside MBS & ABS,* no new mortgage-backed securities were issued for subprime or alt-A loans or for prime-quality jumbo loans (loans with balances above the conforming loan limits) in 2009. See Inside Mortgage Finance Publications (2010), *Inside MBS & ABS*, June 11, www.imfpubs.com.

32. See Mortgage Insurance Companies of America (2009), "2009–2010 Fact Book & Member Directory" (Washington: MICA), available at www.privatemi.com/news/factsheets/2009-2010.pdf.

33. See Standard & Poor's (2009), "Significant Operating Losses Continue to Pressure U.S. Mortgage Insurers' Capital Adequacy Ratios," *Ratings Direct,* August 21, www.standardandpoors.com/ratingsdirect.

34. One relatively small insurer, Triad Guaranty, was forced to stop writing new policies in 2008.

35. The list of distressed or declining markets varies by mortgage insurance company but typically includes metropolitan areas and states that have experienced severe declines in employment or home prices.

Private Mortgage Insurance

Historically, mortgage lenders extending conventional loans required prospective borrowers to make a down payment of at least 20 percent of a home's value before they would extend a loan to buy a home or refinance an existing mortgage. Private mortgage insurance (PMI) emerged in the 1950s alongside the long-standing Federal Housing Administration (FHA) and Department of Veterans Affairs (VA) government loan programs to help bridge the gap between lenders reluctant to extend mortgages with high loan-to-value (LTV) ratios and consumers interested in borrowing more than 80 percent of the underlying home's value. For a borrower seeking a high-LTV loan, the lender can require that the borrower purchase mortgage insurance to protect the lender against default-related losses up to a contractually established percentage of the principal amount. In fact, a high-LTV loan must have PMI coverage in order to be eligible for purchase by the government-sponsored enterprises (Fannie Mae and Freddie Mac). Over the years, PMI-backed loans became a significant part of the mortgage market and an even more important segment of the insured portion of that market.

PMI Data Reported in Conjunction with the HMDA Data

In 1993, the Mortgage Insurance Companies of America asked the Federal Financial Institutions Examination Council to process data from the largest PMI companies on applications for mortgage insurance and to produce disclosure statements for the public based on the data.[1] The PMI data largely mirror the types of information submitted by lenders covered by the Home Mortgage Disclosure Act of 1975 (HMDA). However, because the PMI companies do not receive all the information about a prospective loan from the lenders seeking insurance coverage, some items reported under HMDA are not included in the PMI data. In particular, loan pricing information, requests for preapproval, and an indicator of whether a loan is subject to the Home Ownership and Equity Protection Act of 1994 are unavailable in the PMI data.

The handful of companies that typically report data dominate the PMI industry. Therefore, these data cover the vast majority of mortgage insurance written in the United States, allowing for meaningful analysis of these data alongside the HMDA data.[2] Still, care must be exercised in comparing the PMI and HMDA data. Specifically, because of lender coverage rules under Regulation C, the HMDA data may be less comprehensive than the PMI data, especially in terms of coverage of rural markets. The PMI reporting firms provide information on all privately insured loans regardless of property location. In contrast, HMDA's coverage is most complete for metropolitan areas primarily because lenders that maintain offices exclusively in rural areas need not report HMDA data.

For 2009, eight PMI companies reported on nearly 636,000 applications for insurance leading to the issuance of 367,000 insurance policies, down from about 2 million applications and 1.5 million policies in 2007. About 58 percent of the policies in 2009 covered home-purchase loans, and the remainder covered refinance mortgages. About 12 percent of PMI insurance applications were denied, a rate substantially higher than in 2006 and 2007, when only about 2 percent of the requests for insurance were turned down.[3]

1. Founded in 1973, the Mortgage Insurance Companies of America is the trade association for the PMI industry. The Federal Financial Institutions Examination Council (FFIEC) prepares disclosure statements for each of the PMI companies. The company statements and the PMI data are available from the FFIEC at www.ffiec.gov/reports.htm.

2. The PMI data do not capture "pool insurance"—that is, insurance written for pools of loans rather than individual mortgage loans.

3. For the other applications that did not result in a policy, the application was withdrawn, the application file closed because it was not completed, or the request was approved but no policy was issued.

of 90 percent in distressed markets and 95 percent in other areas during 2009.[36]

An analysis of the PMI data reported in conjunction with the HMDA data documents the extent of the decline in PMI by location (designated distressed areas versus all other areas) for loans to purchase site-built one- to four-family homes in metropolitan areas (table 9).[37] Although underwriting standards were tighter in designated distressed areas during 2009, PMI volume nevertheless fell about 80 percent (derived from data in table 9) relative to 2007 in both types of areas. The ratio of PMI policies to all loans (the rows labeled "Market share" in table 9) fell sharply in all areas

36. These are just some of the guidelines issued by these two companies. Distressed market lists and underwriting guidelines are generally available on the mortgage insurance companies' websites.

37. The analysis here is restricted to metropolitan areas since the HMDA mortgage origination data are more complete in metropolitan areas. We divided all MSA counties into the two groups using the distressed or declining market lists as of early to mid-2009 for three of the largest PMI companies—Genworth Financial, United Guaranty, and Mortgage Guaranty Insurance Corporation. If a county appeared on at least two of three distressed lists (by virtue of its being in a designated distressed metropolitan area or state), then we designated it a distressed county for the analysis. All MSA counties in some states, including Arizona, California, Florida, Michigan, New Jersey, and Nevada, were considered distressed. In contrast, some states such as Texas had no MSA counties marked as distressed.

9. Patterns of lending for insured or guaranteed loans and for all loans in areas grouped by distressed status, 2007 and 2009

Percent except as noted

Characteristic	Type of loan								
	Insured or guaranteed, by type of insurance or guarantee						All[2]		
	Private			Government (nonconventional)[1]					
	2007	2009	Difference	2007	2009	Difference	2007	2009	Difference
	Designated as distressed areas[3]								
Number of loans (thousands)[4]	380	71	-309	91	543	452	1,588	1,134	-454
Market share	23.9	6.3	-17.6	5.7	47.9	42.2	100.0	100.0	.0
Non-owner-occupied share	10.1	2.4	-7.8	*	*	*	14.4	10.8	-3.6
LMI share[5]	43.6	30.5	-13.1	42.3	50.0	7.7	30.5	41.1	10.5
Mean of loan amount to income (ratio)	3.3	2.9	-.4	3.2	3.2	.0	2.9	2.9	.1
	All other areas[3]								
Number of loans (thousands)[4]	589	115	-474	241	619	378	1,851	1,221	-630
Market share	31.8	9.5	-22.4	13.0	50.7	37.7	100.0	100.0	.0
Non-owner-occupied share	9.3	1.6	-7.6	*	*	*	13.6	8.3	-5.4
LMI share[5]	48.7	29.0	-19.7	43.1	52.6	9.6	36.6	43.5	6.9
Mean of loan amount to income (ratio)	2.7	2.4	-.3	2.6	2.8	.2	2.4	2.5	.2

1. See table 3, note 1.
2. Includes insured, guaranteed, and others.
3. For definition of designated distressed areas, see text.
4. Includes first-lien, home-purchase lending for site-built, one- to four-family properties located in metropolitan statistical areas.
5. Low- or moderate-income (LMI) borrowers have lower income, or the property is in a lower-income census tract. Borrower income is the total income relied upon by the lender in the loan underwriting. Income is expressed relative to the median family income of the metropolitan statistical area (MSA) or statewide non-MSA in which the property being purchased is located. "Lower" is less than 80 percent of the median. The income category of a census tract is the median family income of the tract relative to that of the MSA or statewide non-MSA in which the tract is located. "Lower" is less than 80 percent of the median.
* Less than 0.5 percent.
SOURCE: Federal Financial Institutions Examination Council, data reported under the Home Mortgage Disclosure Act and private mortgage insurance data.

(18 percentage points in distressed areas and 22 percentage points in other areas).

Consistent with tightening standards, the share of PMI to cover loans for non-owner-occupied housing, a class of loans typically considered to entail elevated credit risk, fell sharply in both types of geographic areas. Moreover, these declines exceeded the decline in the percentage of all loans for non-owner-occupied properties (see last column of table 9). Also, the share of borrowers obtaining PMI with low or moderate incomes (LMI) or with property in LMI neighborhoods fell substantially.[38] Finally, the average ratio of loan amount to income fell noticeably for loans covered by PMI.

With PMI companies tightening their underwriting standards, many borrowers and lenders seeking a high-LTV loan likely turned to the FHA or other government loan programs. Nonconventional loans more than offset the drop in PMI loans in designated distressed areas, and the nonconventional share of mortgages surged from just 6 percent in 2007 to 48 percent in 2009 in these areas. Despite the drop in PMI issuance, the total fraction of loans insured or guaranteed through either government or private sources swelled from 30 percent to 54 percent in designated distressed areas. This fraction also rose in all other areas, though not as dramatically. Overall, the use of mortgage insurance of one type or another has risen since 2007, especially in areas designated as distressed by the PMI companies.

38. LMI neighborhoods are census tracts with a median family income less than 80 percent of the median family income of the MSA or, for rural areas, the statewide non-MSA where the tract is located. LMI borrowers are those with a reported income less than 80 percent of the median family income of the MSA or statewide non-MSA where the property securing the borrower's loan is located. Borrower income reported in the HMDA data is the total income relied upon by the lender in the loan underwriting.

GSE Pricing and the Extension of Conventional High-LTV Loans

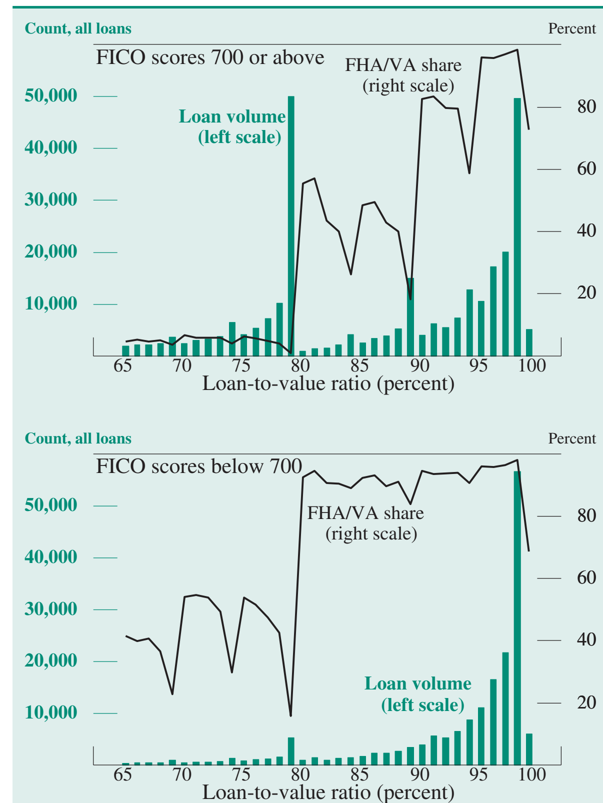
The similar reduction in PMI issuance in both designated distressed and all other areas suggests that some factor other than PMI underwriting and pricing changes may have contributed to the dearth of conventional high-LTV loans with PMI in 2009. One important determinant of PMI volume is GSE underwriting and pricing. For instance, loans with LTVs above 95 percent were generally ineligible for GSE purchase during 2008 and 2009. Therefore, most borrowers seeking a loan with an LTV in excess of 95 percent were likely to obtain a nonconventional loan rather than a

conventional loan with PMI.[39] Also, for borrowers with relatively low FICO scores, GSE pricing in 2008 and 2009 for loans with LTVs between 80 and 95 percent, regardless of PMI pricing and underwriting policies, probably made FHA and VA loans more attractive.

However, for borrowers with moderately high LTVs (80 percent to 95 percent) and higher FICO scores (greater than or equal to 700), GSE pricing by itself would not have discouraged such borrowers from obtaining a conventional loan with PMI during 2009. Therefore, among borrowers with higher FICO scores, PMI pricing and underwriting could have played an important role in determining whether these borrowers obtained a conventional loan with PMI.

We compiled data on individual mortgages from Lender Processing Services, Inc. (LPS), to calculate the FHA or VA share of first-lien home-purchase mortgage originations by LTV and borrower FICO score. The LPS data are drawn from the records of 19 large mortgage servicers, including 9 of the top 10, and therefore provide detailed information on a large portion of the mortgage market. We report the FHA or VA share at each LTV from 65 to 100 percent in increments of 1 percent for borrowers with FICO scores greater than or equal to 700 (figure 6, top panel).[40] Consistent with the conjecture made earlier, nearly all loans with LTVs over 95 percent were FHA or VA.[41] But even in the range just above 90 percent and below 95 percent, the vast majority of loans were FHA or VA despite the GSEs' favorable pricing for these loans. Instead, the FHA and VA share falls precipitously right at 90 percent (along with a spike in volume), and, overall, only about 30 percent of loans with LTVs between 80 and 90 percent were FHA or VA.[42] Because neither GSE nor FHA or VA pricing changes substantively at the 90 percent threshold, PMI pricing and underwriting may become more favorable at this threshold, causing the sharp shift away from government programs and into the conventional market at 90 percent.

6. Volume and share of home-purchase loans originated by the Federal Housing Administration and the Department of Veterans Affairs, by loan-to-value ratio, May through December, 2009



NOTE: The data are monthly. Loans are first liens on owner-occupied, single-family, site-built properties with 30-year mortgages. For definition of FICO score, see text note 29.

FHA Federal Housing Administration.

VA Department of Veterans Affairs.

SOURCE: Lender Processing Services, Inc.

Another downward spike in the nonconventional share occurs at an 85 percent LTV. Again, this spike cannot be explained by FHA, VA, or GSE pricing and thus may be related to PMI policies. Finally, the FHA and VA share falls to about zero at LTVs of 80 percent and below, at which points PMI is not required for a conventional loan.[43]

Also reported is the FHA and VA share for borrowers with FICO scores less than 700 (figure 6, bottom panel). In contrast to the top panel, the vast majority

39. Recall that high-LTV loans must have PMI in order to be eligible for purchase by the GSEs. Lenders could of course still originate loans with LTVs above 95 percent and require the borrower to purchase PMI, but these loans would not be eligible for immediate sale to the GSEs. The lender would have to hold the loans in portfolio or sell them on the private secondary market—options that may not have been as viable in 2009 as they were earlier in the decade.

40. Loans were restricted to first-lien 30-year mortgages for single-family owner-occupied properties that were originated between May and December of 2009. We focused on the May to December period because the GSEs introduced price changes in April.

41. FHA and VA loans with LTVs reported in the LPS data as being over 97 percent likely reflect the financing of the upfront insurance premium.

42. It is important to note that the LPS data are not representative and may overrepresent nonconventional and GSE lending. Also, a large number of loans in the LPS data do not have a loan purpose (home purchase or refinance) reported, and these loans are skewed toward the conventional market. For these reasons, the FHA or VA shares reported in figure 6 may be overstated. Although the LPS data lack the broad coverage of the HMDA data, they have important advantages in that they provide much more detailed underwriting information, such as FICO score and LTV, than do the HMDA data.

43. Of the loans with LTVs between 80 and 90 percent in the top panel of figure 6 that were not FHA or VA, just over 94 percent of them were reported as sold to one of the GSEs. In other words, nearly all of the non-FHA/VA loans in this LTV/FICO cell would have obtained PMI because nearly all were sold to the GSEs.

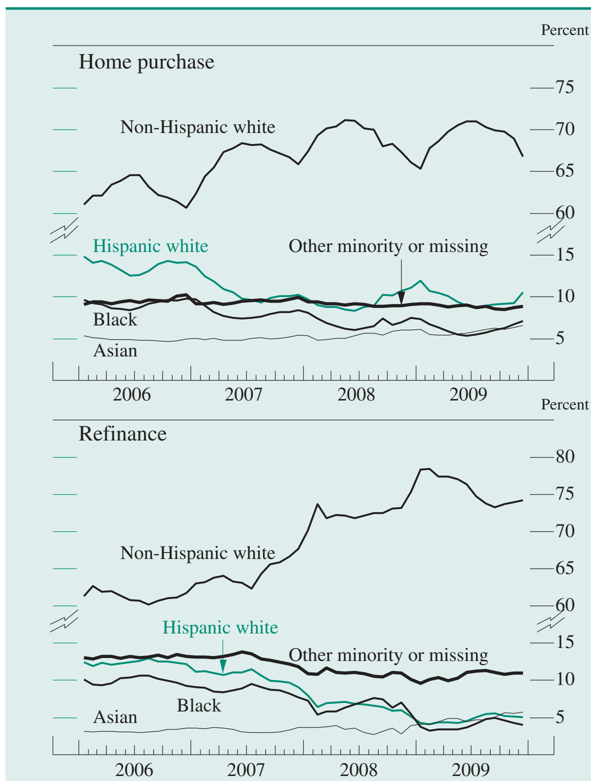
of loans with LTVs over 80 percent were FHA or VA. As mentioned earlier, GSE pricing was unfavorable for borrowers with FICO scores in this lower range, so it is not surprising that these borrowers obtained nonconventional loans.[44]

Changes in Total Lending by Borrower and Area Characteristics

As discussed earlier, 2008 and 2009 were characterized by the increased roles of the FHA, VA, FSA, and RHS programs and the GSEs. This section examines whether these changes played out differently across borrower groups. We differentiate among borrowers by race and ethnicity, relative income (for both the neighborhood and the borrower), location (state), type of lender, and indicators of low-quality lending.

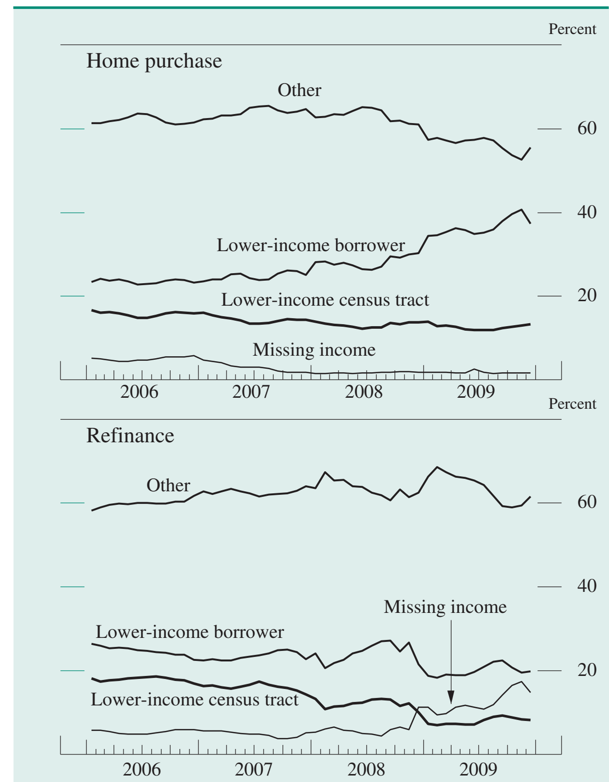
44. The relatively high FHA and VA share of loans with LTVs below 80 percent in the bottom panel of figure 6 may reflect additional, unobserved credit risk such as a high debt-to-income ratio. The downward spikes in the government-backed share at 75 percent and 70 percent may stem from the GSE pricing schedule, which does change at these thresholds for lower-score borrowers in 2009.

7.A. Share of lending extended to minorities, by selected race and ethnicity of borrower, 2006–09



Note: The data are monthly. Loans are first liens on owner-occupied, one- to four-family, site-built properties and exclude business loans. For definition of minority, see table 10.A, note 5; for definition of other minority and explanation of "missing," see table 10.A, note 6.

7.B. Lending extended to borrowers in selected low-income groups as a share of all lending, by type of low-income group, 2006–09

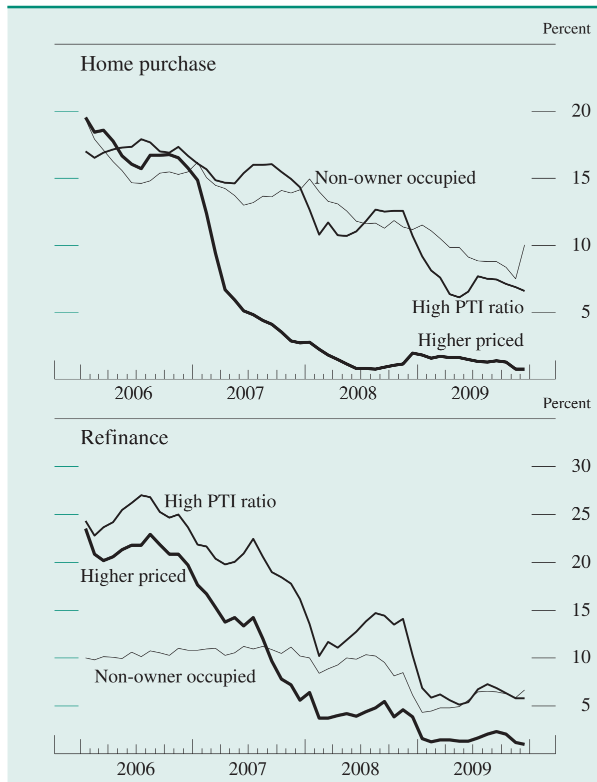


Note: The data are monthly. Loans are first liens on owner-occupied, one- to four-family, site-built properties and exclude business loans. Borrower income is the total income relied upon by the lender in the loan underwriting. Income is expressed relative to the median family income of the metropolitan statistical area (MSA) or statewide non-MSA in which the property being purchased is located. "Lower" is less than 80 percent of the median. The income category of a census tract is the median family income of the tract relative to that of the MSA or statewide non-MSA in which the tract is located. "Lower" is less than 80 percent of the median. "Missing" indicates that information for the characteristic was missing on the application. "Other" consists of all non-lower-income and non-missing-income borrowers who are not in a lower-income census tract. Borrower groups are not mutually exclusive; therefore, sums do not add to 100 percent.

Changes in the shares of home-purchase and refinance lending from 2006 to 2009 for different groups are shown (figures 7.A through 7.D). These data indicate different patterns for home-purchase lending compared with refinance lending. For example, the shares of home-purchase loans to black and Hispanic white borrowers decreased over 2008 and 2009, but the decrease in these groups' shares of the refinance market was more severe. Also, the share of refinance loans to LMI borrowers fell significantly over the sample period, while the share of home-purchase loans to such borrowers increased significantly. Most of this growth took place in 2008 and 2009, when the first-time homebuyer tax credit program was in place.[45]

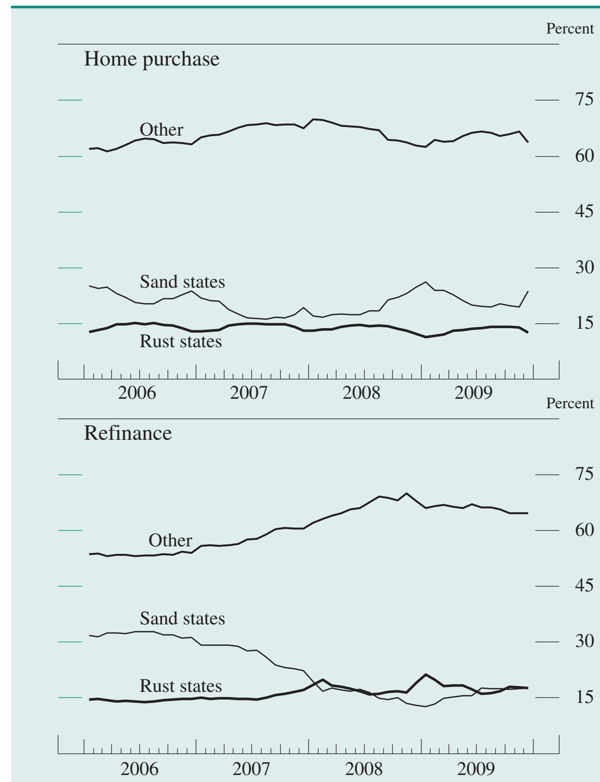
45. The upward trend in the LMI share of borrowers could reflect, to some extent, inflated measures of borrower income re-

7.C. Share of lending, by loan quality and occupancy status of home, 2006–09



NOTE: The data are monthly. Loans are first liens on owner-occupied (except as noted), one- to four-family, site-built properties and exclude business loans. A payment-to-income (PTI) ratio is considered high if it exceeds 30 percent. For definitions of higher-priced lending and PTI, see text. "Non-owner occupied" includes loans for which occupancy status was missing.

7.D. Share of lending, by location of property securing the loan, 2006–09



NOTE: The data are monthly. Loans are first liens on owner-occupied, one- to four-family, site-built properties and exclude business loans. "Sand states" consist of California, Florida, Arizona, and Nevada. "Rust states" consist of Illinois, Indiana, Michigan, Ohio, and Wisconsin. "Other" denotes all remaining states.

Tax records compiled by the Government Accountability Office (GAO) reinforce the view that first-time homebuyers constituted a sizable portion of the 2008 and 2009 home-purchase population.[46] The GAO reports that there were just over 1 million first-time homebuyer tax credit claims from April through December of 2008 and just over 1.6 million claims from January through November of 2009. To help put these numbers in context, we calculated the number of first-lien, owner-occupied, home-purchase originations reported in the HMDA data during these two periods and inflated these numbers 25 percent to account for the fact that HMDA does not have universal coverage of the mortgage market. Under the assumption that all first-time homebuyers take out a mortgage, these data imply that first-time homebuyers accounted for about 48 percent of the home-purchase loans between April 2008 and November 2009.[47]

Figure 7.C shows trends in three metrics of loan quality that can be derived from the HMDA data—the percentage of loans with estimated front-end debt-payment-to-income (PTI) ratios exceeding 30 percent (a warning level in underwriting), the percentage of loans reported as higher priced in the HMDA data, and the percentage of loans for non-owner-occupied properties. All three measures fell significantly over the sample period, although most of this decline had taken place before 2009.[48]

ported for low- or no-documentation loans in 2006 and 2007, thus biasing downward the LMI share of borrowers in those years.

46. See U.S. Government Accountability Office (2010), *Tax Administration: Usage and Selected Analyses of the First-Time Homebuyer Credit* (Washington: GAO, September 2), www.gao.gov/products/GAO-10-1025R.

47. The LPS data shown in figure 6 are also consistent with first-time homebuyers making up a large share of the home-purchase mortgage population. These data indicate that a large share of home-purchase loans had LTVs over 95 percent, which may reflect high first-time homebuyer activity since such borrowers have traditionally had less money for a down payment.

48. The monthly mortgage payment used for the PTI is estimated assuming all mortgages are fully amortizing 30-year fixed mortgages. If the loan pricing spread is reported in the HMDA data, the loan contract rate is assumed to be the same as the APR. Otherwise, it is assumed to be equal to the PMMS APR level plus 20 basis points prevailing at the loan's estimated lock date.

Some of the changes shown thus far in figures 7.A through 7.C may reflect factors specific to certain geographic areas rather than factors specific to certain demographic groups. For instance, a decline in lending in California relative to the rest of the nation would tend to generate a relative decline in lending to Hispanic white borrowers because of the prevalence of this group in California. As shown in figure 7.D, the share of loans extended to residents of the "sand states"—California, Florida, Arizona, and Nevada—declined, particularly for refinance lending. Nevertheless, even after controlling for differential trends in lending across markets, the racial and income trends described earlier mostly remain (data not shown in tables).

Borrowers of different demographic groups showed large differences in their propensity to use different types of loans, with significant changes from year to year (tables 10.A and 10.B). All groups showed substantial increases in their use of nonconventional loans from 2006 through 2009. Black and Hispanic white borrowers, however, relied particularly heavily on these government programs. In 2009, more than 80 percent of home-purchase loans and more than 50 percent of refinance loans to black borrowers were nonconventional. For Hispanic white borrowers in 2009, nearly three-fourths of their home-purchase loans and 30 percent of their refinance loans were nonconventional. In 2006, over 40 percent of home-purchase and refinance loans to both black and Hispanic white borrowers were sold into the private securities market or sold to a nongovernment purchaser. By 2007, these shares had dropped considerably, and the GSE and portfolio shares of loans among these groups had grown. In 2008 and 2009, the share of home-purchase loans to black and Hispanic white borrowers that were sold to the GSEs fell, while the share of refinance loans to both groups that were sold to the GSEs rose from 2007 through 2009.

Patterns of loan-type incidence for LMI borrowers and borrowers living in LMI tracts are similar to those for black and Hispanic white borrowers but are more muted. Loans to these borrowers were less likely to be sold on the nongovernment secondary market in 2006, and the shift toward nonconventional loans in 2008 and 2009 was not as large. The share of borrowers with income missing from their loan applications fell from 2006 through 2009 (more than one-half of these loans were sold into the private secondary market in 2006). The incidence of missing income for refinance loans actually rose in 2008 and 2009, likely the result of "streamlined" refinance programs.

In 2006 and 2007, nonconventional loans as well as GSE loans were significantly less likely than portfolio or private secondary-market loans to be classified as low quality by our measures—high PTI or higher priced. However, by 2008, this lower incidence for high-PTI loans had largely disappeared. The secondary market for loans reported as higher priced in the HMDA data appears to have largely disappeared, as most of these loans ended up in lenders' portfolios in 2008 and 2009.

Loans originated in the sand states in 2006 and 2007 were much more likely to be sold into the private secondary market than loans originated in other states. By 2008, differences in the disposition patterns between the sand states and the rest of the country had largely disappeared in the home-purchase market, likely in part because of changes in the FHA and GSE loan limits. However, in the refinance market, loans originated in the sand states in 2008 and 2009 were more likely to be purchased by the GSEs and less likely to be part of the nonconventional loan programs than loans in other states.

Changes in the Structure of the Mortgage Industry

As noted, the HMDA data cover the majority of home loans originated in the United States and include nearly all home lenders with offices in metropolitan areas. As a consequence of its broad coverage, the HMDA data can be used to reliably track changes in the structure of the mortgage industry and the sources of different loan products.

Historically, depository institutions, particularly savings institutions, were a leading source of mortgage credit. In 1980, savings institutions extended about one-half of the home loans, and commercial banks nearly one-fourth of such loans.[49] As the secondary market for mortgages evolved, and originating lenders no longer needed to hold loans in portfolio, opportunities became available for a wider group of lenders to enter the market and compete with the traditional types of originating institutions. Mortgage companies emerged as a major source of loans. Most mortgage companies are independent of depositories, but some are affiliates or direct subsidiaries of depositories. Both types of mortgage companies rely on a wide-reaching base of independent or affiliated brokers to find customers and take applications. By the early 1990s, mort-

49. See The Joint Center for Housing Studies, Harvard University (2002), *The 25th Anniversary of the Community Reinvestment Act: Access to Capital in an Evolving Financial Services System* (Cambridge, Mass.: JCHS, March).

10. Incidence of selected types of loans, by purpose of the loan and by various defining characteristics, 2006–09

A. Home purchase

Percent except as noted

Characteristic	Nonconventional[1]	GSE[2]	Other[3]	Portfolio[4]	Nonconventional[1]	GSE[2]	Other[3]	Portfolio[4]	Nonconventional[1]	GSE[2]	Other[3]	Portfolio[4]	Nonconventional[1]	GSE[2]	Other[3]	Portfolio[4]
	2006				2007				2008				2009			
Minority status of borrower[5]																
Black or African American	13.9	16.9	43.2	26.0	21.9	34.2	15.7	28.2	64.0	19.4	5.2	11.4	81.4	9.2	2.6	6.8
Hispanic white	7.0	18.2	46.5	28.3	12.2	37.0	17.2	33.6	51.5	29.5	6.1	13.0	73.6	15.3	4.1	6.9
Asian	2.7	30.7	33.5	33.1	3.2	43.0	17.1	36.7	14.8	54.8	10.2	20.2	27.3	49.5	9.4	13.9
Non-Hispanic white	9.6	33.2	27.8	29.4	11.5	44.0	16.2	28.4	35.4	36.2	9.9	18.5	52.1	28.9	7.1	11.9
Other minority or missing[6]	6.2	26.5	35.3	32.0	9.4	41.9	16.9	31.8	33.4	40.4	7.8	18.4	51.3	30.4	6.1	12.3
LMI census tract or borrower[7]																
Census tract	9.6	22.1	38.9	29.4	13.8	39.0	15.5	31.7	45.5	30.9	7.2	16.5	64.3	20.0	5.2	10.4
Borrower	14.9	30.2	27.6	27.4	15.9	43.0	15.1	26.0	46.1	30.2	8.7	15.0	65.3	20.6	5.3	8.8
Other[8]	7.7	30.6	32.5	29.2	10.6	42.9	16.5	30.0	33.5	38.6	9.4	18.4	47.2	32.7	7.5	12.6
Missing[9]	1.7	15.9	41.8	40.7	4.7	29.8	24.1	41.5	37.0	25.4	8.5	29.1	53.3	24.7	5.8	16.2
Loan characteristic or occupancy status																
High payment-to-income ratio[10]	5.4	19.3	44.8	30.6	7.5	39.9	19.4	33.3	32.8	38.4	10.9	17.9	54.8	27.3	7.7	10.1
Higher priced[11]	.1	5.2	70.9	23.8	.5	27.3	25.6	46.6	10.2	17.3	10.6	61.8	15.5	8.5	5.2	70.8
Non-owner occupied[12]	.0	30.0	32.3	37.7	.0	42.8	15.7	41.5	.6	53.9	10.4	35.1	.3	56.2	12.0	31.4
Property location[13]																
Sand states	2.6	19.6	46.2	31.6	6.0	37.1	20.0	36.9	39.8	38.4	8.1	13.7	57.8	27.4	7.3	7.4
Rust states	9.4	35.1	26.5	29.0	11.3	46.6	13.0	29.1	35.9	35.8	8.2	20.1	50.8	30.8	5.0	13.4
Other	11.1	30.8	29.4	28.7	13.5	42.6	16.1	27.8	37.2	35.1	9.5	18.2	54.0	27.2	6.7	12.1
Type of lender																
Depository	7.5	31.2	19.3	42.0	9.0	41.5	9.0	40.5	30.1	40.7	5.8	23.4	45.7	33.7	4.4	16.2
Affiliate of depository	8.9	44.6	31.1	15.4	10.7	57.1	16.0	16.2	35.8	45.5	7.7	11.0	56.2	32.0	4.1	7.7
Independent mortgage company	10.8	16.1	49.8	23.3	19.0	32.0	33.2	15.8	55.1	20.7	17.2	7.0	69.1	16.0	11.3	3.7
Total	**9.0**	**28.9**	**32.8**	**29.4**	**11.8**	**42.2**	**16.4**	**29.7**	**37.5**	**35.8**	**9.1**	**17.6**	**54.4**	**27.7**	**6.6**	**11.3**

NOTE: First-lien mortgages for owner-occupied, one- to four-family, site-built properties; excludes business loans.

1. See table 3, note 1.
2. Government-sponsored enterprise (GSE) loans are all originations categorized as conventional and sold to Fannie Mae, Freddie Mac, Ginnie Mae, or Farmer Mac.
3. Other loans are conventional loans sold to non-government-related or non-affiliate institutions.
4. Portfolio loans are conventional loans held by the lender or sold to an affiliate institution.
5. Categories for race and ethnicity reflect revised standards established in 1997 by the Office of Management and Budget. Applicants are placed under only one category for race and ethnicity, generally according to the race and ethnicity of the person listed first on the application. However, under race, the application is designated as *joint* if one applicant reported the single designation of white and the other reported one or more minority races. If the application is not joint but more than one race is reported, the following designations are made: If at least two minority races are reported, the application is designated as *two or more minority races;* if the first person listed on an application reports two races, and one is white, the application is categorized under the minority race. For loans with two or more applicants, lenders covered under the Home Mortgage Disclosure Act report data on only two.
6. Other minority consists of American Indian or Alaskan Native, and Native Hawaiian or other Pacific Islander. "Missing" indicates that information for the characteristic was missing on the application.
7. See table 9, note 5.
8. Other consists of all non-lower- and non-missing-income borrowers who are not in a lower-income census tract.
9. Income was not relied upon in the underwriting of the loan.
10. High payment-to-income ratio is 30 percent or more.
11. For definition of higher-priced lending, see text.
12. Includes loans for which occupancy status was missing.
13. "Sand states" consist of California, Florida, Arizona, and Nevada; "rust states" consist of Illinois, Indiana, Michigan, Ohio, and Wisconsin; "other" consists of all other states.

gage companies originated more than one-half of home loans.[50]

During the 1980s and through the first half of the 1990s, mortgage companies and depositories largely competed for borrowers of prime and near-prime quality, with a large proportion of these loans eventually being purchased or backed by Fannie Mae or Freddie Mac for sale to investors. Over the next decade or so, as lenders and investors became more comfortable with lending to borrowers with weaker credit histories or other characteristics that signaled elevated credit risk, the subprime and private securitization markets expanded.

By 2006, mortgage companies, including both independent institutions and those affiliated with a depository institution, originated about 57 percent of all loans and 72 percent of the higher-priced loans (table 11). As shown in tables 10.A and 10.B, affiliated mortgage companies tended to sell loans to the GSEs, while independent mortgage companies were the dominant suppliers of the private secondary market. The collapse of the subprime market in the first half of

50. See U.S. Department of Housing and Urban Development, Office of Policy Development and Research, "U.S. Housing Market Conditions: National Data," webpage, www.huduser.org/periodicals/ushmc/fall97/nd_hf.html.

10. Incidence of selected types of loans, by purpose of the loan and by various defining characteristics, 2006–09

B. Refinance

Percent except as noted

Characteristic	Nonconventional[1]	GSE[2]	Other[3]	Portfolio[4]	Nonconventional[1]	GSE[2]	Other[3]	Portfolio[4]	Nonconventional[1]	GSE[2]	Other[3]	Portfolio[4]	Nonconventional[1]	GSE[2]	Other[3]	Portfolio[4]
	2006				2007				2008				2009			
Minority status of borrower[5]																
Black or African American	4.4	16.6	41.2	37.8	10.2	29.3	16.8	43.7	38.9	30.3	4.9	25.9	52.5	31.1	4.3	12.1
Hispanic white	1.8	19.2	43.4	35.6	3.9	34.3	18.7	43.1	19.8	47.4	7.2	25.7	30.1	48.4	7.4	14.1
Asian	.7	24.1	35.5	39.7	1.2	35.7	17.7	45.4	5.4	59.2	10.0	25.4	6.5	70.7	10.1	12.6
Non-Hispanic white	2.6	27.3	31.2	38.9	4.9	39.5	16.0	39.6	16.0	47.2	9.5	27.3	16.9	58.5	9.7	14.9
Other minority or missing[6]	1.8	21.9	42.6	33.7	4.2	36.4	20.8	38.6	18.9	50.0	7.8	23.3	19.2	58.1	7.2	15.6
LMI census tract or borrower[7]																
Census tract	2.9	19.5	40.0	37.7	6.2	33.5	17.3	43.0	24.6	40.7	6.8	27.9	31.2	45.9	6.9	16.0
Borrower	2.9	25.5	33.0	38.6	5.7	38.9	15.2	40.2	18.3	44.7	8.2	28.8	16.8	57.4	8.9	16.9
Other[8]	1.7	25.2	35.3	37.8	3.8	38.3	17.7	40.2	13.3	49.8	9.8	27.0	8.9	64.6	10.7	15.9
Missing[9]	11.2	21.6	34.6	32.6	17.4	28.6	16.4	37.6	58.7	26.6	2.7	12.0	75.5	19.6	1.4	3.6
Loan characteristic or occupancy status																
High payment-to-income ratio[10]	.9	16.4	49.5	33.2	2.4	31.9	23.1	42.6	15.7	47.9	10.5	26.0	20.2	56.5	10.6	12.8
Higher priced[11]	.1	3.7	60.1	36.1	.2	10.1	27.0	62.6	1.8	9.8	2.9	85.5	8.5	7.9	2.7	80.9
Non-owner occupied[12]	.1	23.8	36.0	40.0	.1	38.2	17.0	44.6	.9	52.0	8.8	38.3	2.0	61.1	9.3	27.7
Property location[13]																
Sand states	.7	21.5	42.4	35.4	1.6	34.8	20.6	43.0	9.3	56.7	9.7	24.3	14.0	63.3	10.3	12.4
Rust states	4.0	28.3	29.1	38.6	7.6	40.4	12.8	39.2	19.0	46.0	8.1	26.9	16.9	60.7	7.7	14.7
Other	3.2	25.2	32.8	38.9	6.0	38.0	16.5	39.5	19.4	44.7	8.9	27.1	20.2	55.2	9.3	15.3
Type of lender																
Depository	1.8	26.1	17.4	54.7	3.6	36.2	7.4	52.8	11.4	50.3	5.4	32.9	12.2	63.1	6.5	18.2
Affiliate of depository	2.1	38.4	33.3	26.2	3.2	47.3	18.7	30.8	15.5	51.4	8.1	25.0	18.2	67.7	5.1	9.0
Independent mortgage company	3.6	13.1	57.8	25.4	10.1	31.2	37.7	21.1	38.0	33.7	20.0	8.4	38.6	36.0	18.9	6.5
Total	**2.5**	**24.4**	**35.3**	**37.7**	**5.0**	**37.5**	**17.1**	**40.4**	**17.6**	**46.9**	**8.9**	**26.6**	**18.6**	**57.5**	**9.2**	**14.7**

NOTE: See notes to table 10.A.

11. Distribution of reported higher-priced lending, by type of lender, and incidence at each type of lender, 2006–09

Percent except as noted

Type of lender	Higher-priced loans						MEMO: All loans	
	Old pricing rules[1]			New pricing rules[2]				
	Number	Distribution	Incidence	Number	Distribution	Incidence	Number	Distribution
	2006							
Independent mortgage company	1,291,245	45.7	39.2	...	...	...	3,290,902	31.6
Depository	801,001	28.4	18.0	...	...	...	4,459,306	42.9
Affiliate or subsidiary of depository	731,703	25.9	27.6	...	...	...	2,649,644	25.5
Total	2,823,949	100	27.2	...	...	...	10,399,852	100
	2007							
Independent mortgage company	307,933	21.1	18.3	...	...	...	1,683,792	20.4
Depository	660,518	45.3	14.2	...	...	...	4,649,803	56.4
Affiliate or subsidiary of depository	489,927	33.6	25.7	...	...	...	1,905,246	23.1
Total	1,458,378	100	17.7	...	...	...	8,238,841	100
	2008							
Independent mortgage company	120,605	18.2	9.1	...	...	...	1,319,714	21.3
Depository	401,594	60.8	9.9	...	...	...	4,044,889	65.3
Affiliate or subsidiary of depository	138,709	21.0	16.8	...	...	...	826,848	13.4
Total	660,908	100	10.7	...	...	...	6,191,451	100
	2009							
Independent mortgage company	71,679	20.8	4.1	4,088	14.7	1.5	2,026,273	24.2
Depository	243,974	70.6	5.0	21,957	79.0	3.6	5,499,235	65.8
Affiliate or subsidiary of depository	29,779	8.6	4.0	1,754	6.3	1.9	832,555	10.0
Total	345,432	100	4.7	27,799	100	2.9	8,358,063	100

NOTE: First-lien mortgages for site-built properties; excludes business loans. For definition of higher-priced lending, see text.

1. Higher-priced loans defined prior to October 1, 2009.

2. Higher-priced loans defined on or after October 1, 2009.

... Not applicable.

2007 and the ensuing financial crisis, however, greatly diminished the role of mortgage companies. By 2009, mortgage companies extended only 34 percent of the loans, with independent mortgage companies accounting for about two-thirds of this total. The disposition of loans by affiliates much more closely mirrored that by depositories; independent mortgage companies were still more likely to sell loans into the private secondary market and showed higher incidence of nonconventional lending than affiliates or depositories (tables 10.A and 10.B).

Aside from changes in the broad types of lenders extending credit, another development in the mortgage market has been an increase in market concentration, which can be documented using the HMDA data. For example, the 10 organizations that extended the largest number of home-purchase loans in 1990 accounted for about 17 percent of all reported loans of this type; in 2009, the largest 10 organizations accounted for 35 percent of the home-purchase loans (data not shown in tables).[51] This consolidation is likely driven, at least in part, by economies of scale in underwriting, loan processing, and loan servicing. However, despite the growing importance of a relatively few large mortgage originators, the vast majority of markets (represented in our analysis by MSAs) remain relatively unconcentrated, with prospective borrowers having a wide range of options.

One widely used metric for the degree of competition in a local market is the Herfindahl-Hirschman Index (HHI).[52] According to merger guidelines from the U.S. Department of Justice and the Federal Trade Commission, markets with HHI values less than 1,000 are considered unconcentrated, those with values from 1,000 to 1,800 are considered moderately concentrated, and those with values above 1,800 are considered concentrated. Based on the 2009 HMDA data for home-purchase lending, 81 percent of 392 MSAs would be considered unconcentrated, 17 percent moderately concentrated, and 2 percent concentrated (data not shown in tables).[53] By comparison, in 1990, 60 percent of the MSAs were unconcentrated, 29 percent moderately concentrated, and 11 percent concentrated. By this measure of competition, a larger share of local markets was unconcentrated or moderately concentrated in 2009 than in 1990 despite the increase in mortgage market concentration at the national level.

Subdued Refinance Activity in 2009

As shown earlier in figure 1, the average annual percentage rate for a prime-quality 30-year fixed-rate mortgage fell abruptly at the end of 2008 and into 2009, dropping under 5 percent in April and May. Refinance lending simultaneously surged, peaking at over 645,000 loans in May 2009 before falling back to monthly levels more similar to those seen in 2006 and 2007 despite the APR staying at historically low levels near 5 percent.

Compared with previous periods when interest rates declined sharply, the surge in refinance lending in 2009 appears to have been quite weak. Interest rates also fell sharply from 2001 to 2003, and refinance loan volume increased to more than 15 million in 2003 (shown earlier in table 2.B), far greater than the refinancing volume in 2009 of about 5.8 million loans. One possible reason that refinance activity was not stronger in 2009 is that many of the mortgages available to be refinanced in that year were originated between 2003 and 2005, when interest rates were quite low and therefore refinancing these loans may not have offered a significant enough benefit to borrowers to offset the transaction costs.

Other potential obstacles to refinance activity in 2009 were high unemployment and underemployment, as well as severely depressed home values resulting in low or negative equity positions. From the end of 2006 to the end of 2009, the national unemployment rate more than doubled to 10 percent, according to the Bureau of Labor Statistics, and house prices fell nearly 11 percent, according to the Federal Housing Finance Agency (FHFA) home price index. Several states experienced deeper home price declines over this period, most notably the sand states plus Michigan, where the FHFA index fell more than 20 percent. Many households may not have been able to refinance to take advantage of the low rates because they did not have enough home equity or they did not meet lenders' income and employment requirements.

We present payoff rates—a rough proxy for refinance rates—during 2009 for 30-year fixed-rate conventional mortgages active as of December 2008 using data from LPS (table 12). The loans are divided into three broad groups: (1) those with a "clean" payment history (no delinquencies on the mortgage) in the 12 months prior to December 2008 and secured by a property outside of Arizona, California, Florida, Michigan, and Nevada; (2) those with a clean payment history in the 12 months prior to December 2008, but inside Arizona, California, Florida, Michigan, and

51. For purposes of these calculations, affiliated entities, whether banking institutions or mortgage companies, were consolidated into a single organization.

52. See U.S. Department of Justice and Federal Trade Commission (2010), *Horizontal Merger Guidelines* (Washington: DOJ and FTC).

53. HHI values were calculated based on 2009 HMDA data for first-lien home-purchase loans for site-built properties. The analysis was limited to the data for MSAs because HMDA coverage is most complete for such areas.

12. Mortgage payoff rates during 2009 for loans active as of December 2008, by loan's payment history, geographic location, and year of loan origination

Percent

Year of loan origination[1]	Status of loan's 12-month payment history									Memo: PMMS average rate[1]
	Clean, by location						Blemished			
	Outside Ariz., Calif., Fla., Mich., and Nev.			Inside Ariz., Calif., Fla., Mich., and Nev.						
	Share of all loans	Median interest rate	Share paid off in 2009	Share of all loans	Median interest rate	Share paid off in 2009	Share of all loans	Median interest rate	Share paid off in 2009	
1999 or earlier	3.2	7.250	15.5	1.2	7.250	12.0	.8	7.625	5.4	*
2000	.2	8.125	10.7	.1	8.125	7.9	.1	8.375	1.4	8.1
2001	1.5	6.750	19.3	.5	6.875	19.0	.4	7.250	5.8	7.0
2002	4.1	6.250	23.7	1.5	6.250	18.4	.6	6.750	4.9	6.5
2003	12.0	5.750	17.1	5.5	5.750	14.6	1.3	5.875	5.9	5.8
2004	6.9	5.875	17.1	2.6	5.875	11.4	1.0	6.125	3.8	5.8
2005	9.3	5.875	16.2	3.8	5.875	9.3	1.7	6.125	3.5	5.9
2006	8.8	6.500	23.4	3.0	6.420	9.6	2.0	6.750	3.5	6.4
2007	11.2	6.375	21.7	3.6	6.375	11.4	2.2	6.750	3.7	6.3
2008	7.7	6.000	19.6	2.7	6.000	17.7	.4	6.500	5.3	6.0
Memo										
All origination years	65.2	6.125	19.3	24.4	6.000	12.8	10.4	6.625	4.2	*

Note: Loans restricted to 30-year fixed-rate conventional first-lien mortgages, active as of December 2008, for owner-occupied single-family homes.
1. Average mortgage interest rate for 30-year fixed-rate mortgage reported by Freddie Mac's Primary Mortgage Market Survey (PMMS).
* Average not calculated because loans span many origination years.
Source: Lender Processing Services.

Nevada; and (3) those with a "blemished" payment history (at least one instance of being 30 days or more in arrears) in the 12 months prior to December 2008.[54] The second group captures borrowers most likely to be facing low or negative equity, and the third group captures distressed borrowers regardless of geographic location.[55] The table disaggregates loans by year of origination in order to show differences in payoff rates across years with differing levels of interest rates.

As shown in the bottom row of the table, 65.2 percent of loans in the sample were in the first group, 24.4 percent were in the second group, and 10.4 percent were in the third group. Thus, more than one-third of the loans either had a blemished 12-month payment history or were in one of the five states that experienced the sharpest home price declines from the end of 2006 to the end of 2009.

As mentioned earlier, many mortgages were originated between 2003 and 2005 when rates were quite low, and thus refinancing these loans in 2009 may not have offered a significant benefit to borrowers. Focusing just on the first group of loans, in which negative equity and borrower distress should have been less common, one can see that a substantial fraction of loans active as of December 2008 were in fact originated in the period from 2003 to 2005. Moreover, payoff rates for these loans were relatively low. For instance, the payoff rate for the 2005 cohort, which had a median interest rate of 5.875 percent, was 16.2 percent, compared with 23.4 percent for loans originated in the next year, which had a median interest rate of 6.5 percent.[56]

Low or negative home equity and the economic recession may also have muted recent refinance activity. Consistent with this view, the overall payoff rate for loans in the first group is substantially higher, at about 19 percent, than that for loans in the second and third groups, at about 13 percent and 4 percent, respectively.[57] These payoff rates reflect both refinancing and home sales. Nevertheless, the difference in payoff rates across the groups likely reflects the difficulties of refinancing for distressed borrowers and borrowers with low or negative equity. Indeed, the difference in payoff rates is most pronounced for loans originated in 2006 when interest rates were relatively high. Among loans

54. Loans in the foreclosure process as of December 2008 were dropped from the analysis sample, which otherwise included all first-lien 30-year mortgages for single-family owner-occupied properties in the LPS database that were active as of that date.

55. The LPS data used here do not include updated home values associated with the mortgages, so it is not possible to determine the changes in home values for the properties related to the mortgages.

56. Tightened mortgage lending standards, as documented in the Federal Reserve's Senior Loan Officer Opinion Survey on Bank Lending Practices (www.federalreserve.gov/boarddocs/SnLoanSurvey), is another reason that refinance activity may have been muted in 2009 relative to 2003. Tighter standards could have damped refinance activity even among borrowers in the first group (those with a clean payment history and outside the five states with steep home price declines). The information presented in table 12 does not shed light on the extent to which underwriting standards may have affected refinance activity in 2009.

57. A substantial fraction of loans in the third group (those with a blemished payment history) entered the foreclosure process during 2009. Loans that terminated through foreclosure during 2009 are not counted among the loans that were paid off when calculating the payoff rates in table 12.

originated in that year, 23.4 percent of loans in the first group were paid off during 2009, compared with only 9.6 percent of loans in the second group and 3.5 percent in the third group.

Patterns of Lending in Distressed Neighborhoods

The difficult economic circumstances of the past few years have not fallen equally across all areas. Housing, mortgage market, and employment conditions differ appreciably across regions of the country, submarkets, and neighborhoods (represented here by census tracts) within these broader areas. Some areas have experienced much more distress than others. In some neighborhoods, high levels of distress have persisted for some time; in others, conditions have recently deteriorated.

Concerns about credit conditions in areas experiencing high levels of distress have received heightened attention from policymakers and others. For example, in June 2010, the federal bank and savings institution regulatory agencies proposed changes to the rules that implement the Community Reinvestment Act (CRA) to support the stabilization of communities hit hard by elevated foreclosures.[58] The revised regulations would encourage covered institutions to support the Neighborhood Stabilization Program (NSP), administered by the Department of Housing and Urban Development.[59] Under the proposal, lenders would be encouraged to make loans and investments and provide services in support of NSP activities to individuals and neighborhoods beyond the traditional focus of the CRA, which is on LMI individuals and LMI areas. Allowing banking institutions to receive CRA consideration for activities conducted in NSP-targeted neighborhoods and directed to individuals in such areas provides additional incentives for these institutions to leverage government funds targeted to these areas and populations.

Given the public policy focus on areas in distress, it is important to learn more about how the changing economic conditions have affected the availability of mortgage credit in distressed areas. The HMDA data can be used to identify differences in the access to and use of credit along a number of dimensions across census tracts sorted by the degree of distress they have experienced in their local mortgage market. For the analysis here, aggregated credit record information provided by Equifax is used to measure the degree of distress a neighborhood faces. We identify those census tracts where at least 10 percent of mortgage borrowers had a loan in foreclosure and designate these tracts as "high-foreclosure tracts."[60] Over 75 percent of these tracts are located in the sand states, with Florida alone accounting for almost one-half of the tracts.

In 2009, home-purchase lending in high-foreclosure tracts, derived from the HMDA data, hovered around 30 percent of its average level in 2004 (figure 8, panel A). While lending in non-high-foreclosure ("other") tracts was also down considerably from 2004 levels, the declines have not been as severe. This difference is particularly pronounced given that lending in the high-foreclosure tracts was considerably higher in 2005 and 2006 than in these other areas.

A large portion of the difference in home-purchase lending between high-foreclosure and other tracts derives from geographic location. The sand states have been particularly hard hit by the downturn in the housing market, and, as a result, some of the differences between the high-foreclosure and other tracts represent market-level (MSA) differences. When the distribution of high-foreclosure tracts across MSAs is controlled for (shown by the line labeled "Control"), home-purchase lending levels in the high-foreclosure tracts appear to be consistent with those in other tracts in the same MSAs.

As discussed earlier, borrowers in distressed areas are less likely to refinance their mortgages. The refinance lending in the high-foreclosure tracts was down substantially from earlier years (figure 8, panel B). This decline was much more severe than that experienced in the other tracts or in the control tracts, despite the

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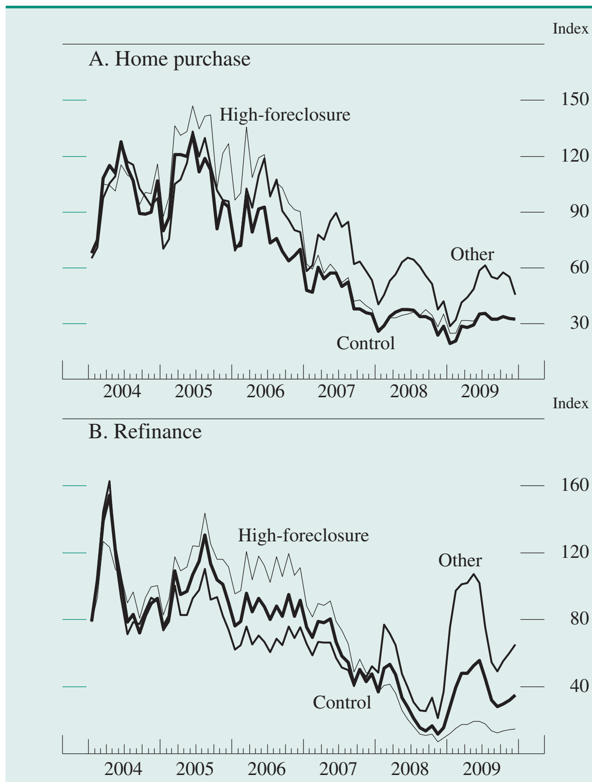
58. For more information about the CRA, see Federal Financial Institutions Examination Council, "Community Reinvestment Act," webpage, www.ffiec.gov/cra. More information about the proposed revision to the CRA is in Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, and Office of Thrift Supervision (2010), "Agencies Propose to Expand Scope of Community Reinvestment Act Regulations to Encourage Depository Institution Support for HUD Neighborhood Stabilization Program Activities," joint press release, June 17, www.federalreserve.gov/newsevents/press/bcreg/20100617c.htm.

59. The NSP program allocates funds to local counties and states with problems arising from the mortgage foreclosure crisis. The funds are intended to acquire, repair, and resell foreclosed and abandoned properties. See U.S. Department of Housing and Urban Development, "Neighborhood Stabilization Program Resource Exchange," webpage, http://hudnsphelp.info/index.cfm.

60. Equifax is one of the three national consumer reporting agencies. The credit-record-based data used here include a count within each census tract of the number of individuals who had either a first mortgage or a home equity loan and a count of the number of individuals with a record of a foreclosure action as of December 31, 2008. These data included no individually identifying information. See www.equifax.com for more information about Equifax.

In some cases, a mortgage or record of a foreclosure action may relate to a property located in a census tract other than the current residence of the individual, which is how individuals are assigned to census tracts. Credit records include the address of the individual, but this address may not be the one of the property associated with any record of a mortgage.

8. Indexed volume of lending, by census-tract group, 2004–09



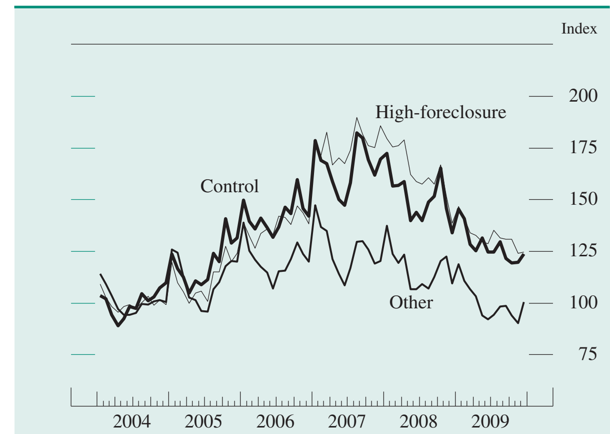
NOTE: The data are monthly. Loans are first-lien mortgages for site-built properties and exclude business loans. Index is normalized to 100 for average monthly lending volume in 2004. For definitions of census-tract groups, see text.

consistently higher levels of refinance lending in the high-foreclosure tracts from 2005 through 2007.

In spite of the similar patterns in home-purchase lending in the high-foreclosure and control tracts, some aspects of lending do appear to differ. For example, denial rates for home-purchase loans, which have been in decline since peaking in 2007, have been higher, relative to their 2004 levels, in the high-foreclosure tracts (figure 9). Other aspects of home-purchase lending in high-foreclosure tracts, including the share of owner-occupied properties and the share of loans to minority borrowers, exhibit similar trends over time as other tracts, though the absolute levels of activity differ (data not shown).

A notable difference between the high-foreclosure and control tracts in home-purchase lending involves borrower income. The mean income of home-purchase borrowers in high-foreclosure tracts, which increased substantially faster than mean incomes in "other" tracts during 2005 and 2006, has declined significantly faster than in the control tracts (figure 10). In each quarter of 2009, the average income of borrowers in the high-foreclosure tracts was over 10 percent lower than the

9. Indexed denial rate for home-purchase loans, by census-tract group, 2004–09

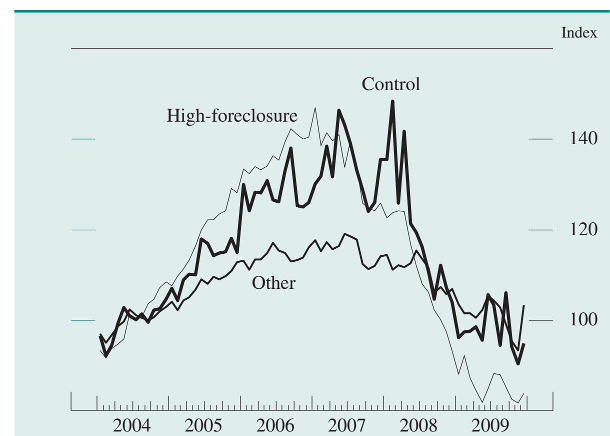


NOTE: See note to figure 8.
SOURCE: Federal Financial Institutions Examination Council, data reported under the Home Mortgage Disclosure Act.

mean had been in 2004. Incomes in both "other" and control tracts also experienced declines and were below their 2004 levels, though the declines were not as severe. The average income of refinance borrowers does not show a similar pattern; instead, the mean income of refinance borrowers has grown over time, regardless of the level of distress in the tract (data not shown).

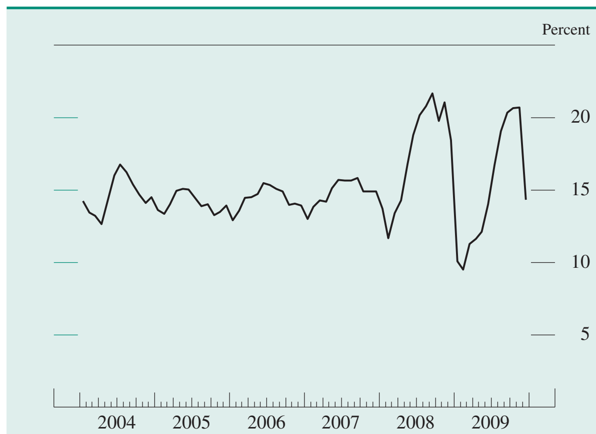
One possible explanation for why borrower incomes have fallen below their 2004 levels for home-purchase borrowers, but not refinancers, may be a larger share of loans to first-time homebuyers. Unfortunately, it is not possible to identify first-time homebuyers in the HMDA data. However, using a second source of data—provided by Equifax and composed of individual, anonymous credit bureau records—we can calculate the share of all individuals taking out a closed-end mortgage (for any purpose) during each month

10. Indexed average income of borrower, by census-tract group, 2004–09



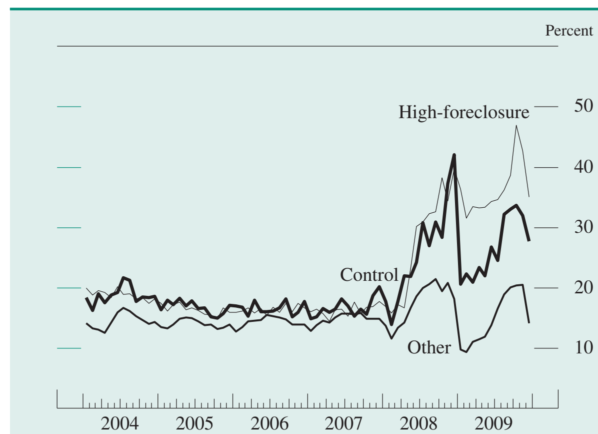
NOTE: See notes to figure 9.

11. Share of first-time borrowers, 2004–09



NOTE: The data are monthly. For information on data calculation, see text; also see text notes 61 and 62.
SOURCE: Authors' calculations based on Equifax data.

12. Share of first-time borrowers, by census-tract group, 2004–09



NOTE: See notes to figure 11. For definitions of census-tract groups, see text.

from 2004 through 2009 who had not previously had a mortgage.[61] These data suggest that the share of first-time homebuyers by this metric, which remained around 15 percent between 2004 and 2007, increased sharply beginning in April 2008 to over 20 percent in late 2008 (figure 11). The share of first-time homebuyers again peaked at about 20 percent in 2009.[62]

A larger share of first-time homebuyers may help explain the observed declines in mean borrower incomes beginning in 2008 (both for the whole market and for high-foreclosure tracts). In the case of high-foreclosure tracts, the increase in the share of first-time homebuyers was particularly steep beginning in April 2008, reaching levels of 40 percent during 2008 (figure 12). This increase was much larger than that observed for the other tracts, though similar to the pattern observed for the control tracts, suggesting that the increase was also experienced in "other" tracts in the same MSAs as the high-foreclosure tracts. However, during 2009, the share of first-time mortgage borrowers in high-foreclosure tracts remained well above the levels observed in the other tracts or in the control tracts. For much of 2009, one-third or more of new mortgage borrowers in high-foreclosure tracts were individuals taking out their first mortgages.

The timing of the increases in the share of first-time homebuyers in April 2008 is consistent with the first-time homebuyer tax credit having increased the number of first-time homebuyers. The effect of the first-time homebuyer tax credit may, however, be overstated by these results. Some of the higher share of first-time homebuyers could be explained by the fact that refinancing activity in these tracts has fallen more rapidly than has home-purchase lending. Unfortunately, it is difficult to distinguish between refinance loans and home-purchase loans in the Equifax data. In other words, the increasing share of first-time homebuyers is a function of both the tax credit effect and differential changes in refinance and home-purchase activity. And it is not possible to determine the relative contributions of these two factors. Nevertheless, a higher share of first-time homebuying in these tracts offers a reasonable explanation for the fall in the mean income of borrowers in high-foreclosure tracts.

Differences in Lending Outcomes by Race, Ethnicity, and Sex of the Borrower

Analyses of the HMDA data for each year since pricing data were introduced in 2004 have found substantial differences in the incidence of higher-priced lending across racial and ethnic lines—differences that cannot be fully explained by factors included in the HMDA data.[63] Analyses have also found differences across

61. This second source of data, from Equifax, is a nationally representative sample of individual credit records, observed quarterly from 1999 through 2009. The data set includes a unique sequence number that allows us to track individual credit experiences over time without any personal identifying information. All of the individuals in our sample remain anonymous.

62. The share of first-time homebuyers calculated using the credit record data differs substantially from the share of loans to first-time homebuyers calculated earlier using tax record data and the HMDA data for several reasons. These include that the former is a share of borrowers while the latter is a share of loans. In addition, the loan purpose, lien status, and occupancy status cannot be easily deciphered in the credit record data. As such, the share calculated in this section using the credit record data includes borrowers who took out junior-lien loans, loans backed by non-owner-occupied properties, or refinance loans and therefore is far lower than the 48 percent of loans to first-time homebuyers cited earlier.

63. See Avery, Brevoort, and Canner, "The 2006 HMDA Data"; Avery, Brevoort, and Canner, "Higher-Priced Home Lending and

groups in mean APR spreads paid by those with higher-priced loans, but such differences have generally been small. Analyses of denial rate data, collected since 1990, have also consistently found evidence of differences across racial and ethnic groups that cannot be fully explained by the information in the HMDA data. Here, we examine the 2009 HMDA data to determine the extent to which these differences persist.

Unfortunately, our analysis of the 2009 pricing data is severely hampered by the introduction of the new pricing threshold in October 2009 and the significant variation in the PMMS−Treasury gap over the year, both of which were discussed earlier. Because the new and old HMDA reporting rules use different, and incomparable, thresholds, we conducted a pricing analysis separately for applications received on or after October 1, 2009, for which the new reporting threshold was in place. For comparison purposes, we also conducted an analysis of loans covered under the old Treasury-based threshold rules, but note that for the reasons discussed earlier, comparison of the two results should be viewed with the utmost caution. Unlike in previous years, we do not report the results of an analysis of mean APR spreads paid by those with higher-priced loans, as the incidence of high-rate lending in 2009 was so low as to make such tests meaningless. The data used for the analysis of racial and ethnic differences in denial rates are unaffected by the problems with the pricing data, so a meaningful comparison can be made with previous years.

The methodology we use for our analysis of both pricing and denial rates can be described as follows. Comparisons of average outcomes for each racial, ethnic, or gender group are made both before and after accounting for differences in the borrower-related factors contained in the HMDA data (income, loan amount, location of the property (MSA), and presence of a co-applicant) and for differences in borrower-related factors *plus* the specific lending institution used by the borrower.[64] Comparisons for lending outcomes across groups are of three types: gross (or "unmodified"), modified to account for borrower-related factors (or "borrower modified"), and modified to account for borrower-related factors plus lender (or "lender modified").[65] The analysis distinguishes between conventional and nonconventional lending, reflecting the different underwriting standards and fees associated with these two broad loan product categories.[66]

Incidence of Higher-Priced Lending by Race, Ethnicity, and Sex

The portion of the 2009 HMDA data for which we can conduct the most meaningful analysis—applications covered under the PMMS reporting threshold—shows very little variation in the frequency of reported higher-priced lending across racial and ethnic groups (tables 13.A, 13.B, 13.C, and 13.D). This result is driven to a large extent by the fact that the overall incidence of higher-priced lending for all groups is much lower than it was in earlier years. For example, we estimated that 22.7 percent of black conventional refinance borrowers in 2008 paid an interest rate that was more than 1.75 percentage points above PMMS prime.[67] For loans covered by the new threshold rules, only 6.3 percent of black conventional refinance borrowers were reported to have had an interest rate 1.50 percentage points above the PMMS prime rate. The reduction in the incidence is similar for all groups and all products. Overall, once other factors are accounted for, there are no significant differences in the incidence of higher-priced loans between groups for loans covered by the new rules.

As noted earlier, we also conducted a pricing analysis for loans covered under the old Treasury-based threshold reporting rules. This analysis, reported in the first four data columns of table 13, also shows a much lower incidence of higher-priced lending for all groups than was shown in earlier years. Perhaps as a consequence, pricing disparities among groups, whether gross or controlling for other factors, are much lower than estimated in earlier periods. However, as discussed earlier, the reporting threshold for fixed-rate loans priced in April 2009 or later was much higher than in previous years. Thus, it is not possible to know for sure whether the decline in the reported incidence

the 2005 HMDA Data"; and Avery, Canner, and Cook, "New Information Reported under HMDA," all in note 14.

64. Excluded from the analysis are applicants residing outside the 50 states and the District of Columbia as well as applications deemed to be business related. Applicant gender is controlled for in the racial and ethnic analyses, and race and ethnicity are controlled for in the analyses of gender differences. For the analysis of loan pricing for loans covered under the Treasury-based threshold, we control for whether the loan was priced in the first three months of 2009 versus the remaining part of the year, since the reporting threshold (under the old rules) differed so much between these two periods. This distinction is possible only because we have access to the information on application and action dates, which are not publicly available.

65. For purposes of presentation, the borrower- and lender-modified outcomes shown in the tables are normalized so that, *for the base comparison group* (non-Hispanic whites in the case of comparison by race and ethnicity and males in the case of comparison by sex), the mean at each modification level is the same as the gross mean.

66. Although results are reported for nonconventional lending as a whole, the analysis controls for the specific type of loan program (FHA, VA, or FSA/RHS) that was used.

67. See Avery and others, "The 2008 HMDA Data: The Mortgage Market during a Turbulent Year," in note 14.

13. Incidence of higher-priced lending, unmodified and modified for borrower- and lender-related factors, by race, ethnicity, and sex of borrower, 2009

A. Home purchase, conventional loan

Percent except as noted

Race, ethnicity, and sex	Old pricing rules[1]				New pricing rules[2]			
	Number of loans	Unmodified incidence	Modified incidence, by modification factor		Number of loans	Unmodified incidence	Modified incidence, by modification factor	
			Borrower-related	Borrower-related plus lender			Borrower-related	Borrower-related plus lender
Race other than white only[3]								
American Indian or Alaska Native	3,519	7.2	5.5	7.7	502	3.6	4.2	3.3
Asian	52,420	2.5	3.9	5.0	11,291	.9	2.5	3.0
Black or African American	21,178	7.3	6.8	7.6	3,220	3.4	3.7	3.8
Native Hawaiian or other Pacific Islander	3,093	3.1	4.7	5.3	386	2.1	4.4	4.5
Two or more minority races	498	3.8	5.0	5.7	71	.0	2.2	.6
Joint	13,560	2.8	3.7	5.0	2,089	1.5	2.8	3.3
Missing	74,943	2.4	3.1	5.1	12,632	.9	2.1	3.1
White, by ethnicity[3]								
Hispanic white	37,725	7.9	6.2	6.4	5,948	6.3	4.4	3.8
Non-Hispanic white	393,916	4.9	4.9	4.9	81,537	3.2	3.2	3.2
Sex								
One male	171,398	5.0	5.0	5.0	34,584	2.9	2.9	2.9
One female	128,179	4.4	4.3	4.7	25,707	2.5	2.5	2.7
Two males	11,970	5.4	5.4	5.4	1,769	4.4	4.4	4.4
Two females	9,411	3.8	4.3	5.9	1,373	3.3	3.1	1.9

NOTE: First-lien mortgages for owner-occupied, one- to four-family, site-built properties; excludes business loans. For definition of higher-priced lending and explanations of old and new pricing rules and modification factors, see text. Loans taken out jointly by a male and female are not tabulated here because they would not be directly comparable with loans taken out by one borrower or by two borrowers of the same sex.

1. See table 11, note 1.
2. See table 11, note 2.
3. See table 10.A, note 5.

13. Incidence of higher-priced lending, unmodified and modified for borrower- and lender-related factors, by race, ethnicity, and sex of borrower, 2009

B. Refinance, conventional loan

Percent except as noted

Race, ethnicity, and sex	Old pricing rules[1]				New pricing rules[2]			
	Number of loans	Unmodified incidence	Modified incidence, by modification factor		Number of loans	Unmodified incidence	Modified incidence, by modification factor	
			Borrower-related	Borrower-related plus lender			Borrower-related	Borrower-related plus lender
Race other than white only[3]								
American Indian or Alaska Native	10,978	6.9	6.2	4.7	1,398	2.7	2.6	1.7
Asian	88,310	1.5	2.9	3.8	16,982	.6	2.2	2.6
Black or African American	70,486	9.0	8.5	6.2	9,554	6.3	6.0	3.7
Native Hawaiian or other Pacific Islander	9,207	3.5	4.8	3.6	1,113	1.3	2.3	2.7
Two or more minority races	2,000	1.4	3.4	1.7	245	.8	6.4	4.3
Joint	43,100	2.7	3.0	3.3	6,219	1.4	2.0	2.9
Missing	245,310	2.5	2.9	4.0	38,810	1.1	2.0	2.7
White, by ethnicity[3]								
Hispanic white	88,837	6.5	5.2	4.9	12,768	4.8	3.6	3.3
Non-Hispanic white	955,406	5.1	5.1	5.1	191,459	2.8	2.8	2.8
Sex								
One male	357,819	4.8	4.8	4.8	64,520	2.5	2.5	2.5
One female	303,443	3.8	4.4	4.4	53,489	3.2	2.6	2.5
Two males	27,757	2.8	2.8	2.8	3,466	2.1	2.1	2.1
Two females	28,789	3.4	2.7	2.9	3,623	2.6	1.8	1.5

NOTE: See notes to table 13.A.

13. Incidence of higher-priced lending, unmodified and modified for borrower- and lender-related factors, by race, ethnicity, and sex of borrower, 2009

C. Home purchase, nonconventional loan

Percent except as noted

Race, ethnicity, and sex	Number of loans	Unmodified incidence	Modified incidence, by modification factor		Number of loans	Unmodified incidence	Modified incidence, by modification factor	
			Borrower-related	Borrower-related plus lender			Borrower-related	Borrower-related plus lender
	Old pricing rules[1]				New pricing rules[2]			
Race other than white only[3]								
American Indian or Alaska Native	7,059	5.2	4.7	5.3	1,024	.6	.8	1.5
Asian	23,449	4.6	4.6	5.4	4,490	.8	1.2	1.3
Black or African American	61,000	7.9	6.9	7.5	12,520	2.2	2.3	2.0
Native Hawaiian or other Pacific Islander	4,927	5.6	5.8	6.8	710	.7	.6	.7
Two or more minority races	801	4.4	4.1	4.6	120	.8	.6	-.2
Joint	15,731	4.3	5.5	6.2	2,332	.7	1.5	1.0
Missing	65,714	5.3	5.5	5.8	12,139	1.0	1.1	1.1
White, by ethnicity[3]								
Hispanic white	66,431	7.9	5.8	6.2	13,330	1.4	1.6	1.1
Non-Hispanic white	327,069	5.3	5.3	5.3	78,296	1.1	1.1	1.1
Sex								
One male	179,507	5.9	5.9	5.9	42,427	1.3	1.3	1.3
One female	127,108	6.6	5.5	5.8	29,774	1.5	1.1	1.0
Two males	16,864	7.3	7.3	7.3	2,584	1.1	1.1	1.1
Two females	13,476	7.2	6.5	7.1	2,000	1.3	1.1	1.5

NOTE: See notes to table 13.A.

13. Incidence of higher-priced lending, unmodified and modified for borrower- and lender-related factors, by race, ethnicity, and sex of borrower, 2009

D. Refinance, nonconventional loan

Percent except as noted

Race, ethnicity, and sex	Number of loans	Unmodified incidence	Modified incidence, by modification factor		Number of loans	Unmodified incidence	Modified incidence, by modification factor	
			Borrower-related	Borrower-related plus lender			Borrower-related	Borrower-related plus lender
	Old pricing rules[1]				New pricing rules[2]			
Race other than white only[3]								
American Indian or Alaska Native	3,868	5.0	7.1	6.2	408	4.4	5.1	4.1
Asian	10,449	5.4	5.8	6.5	1,642	3.2	3.2	1.8
Black or African American	57,330	9.1	9.5	8.9	8,750	5.9	4.0	.9
Native Hawaiian or other Pacific Islander	2,867	4.3	5.9	6.5	358	3.1	2.8	4.8
Two or more minority races	586	3.1	2.7	5.0	74	9.5	.9	.0
Joint	12,588	5.0	6.8	7.6	1,753	2.1	3.9	.6
Missing	69,924	8.4	8.8	7.5	9,547	1.9	1.7	.0
White, by ethnicity[3]								
Hispanic white	35,824	7.8	7.6	7.1	5,874	5.2	3.0	.0
Non-Hispanic white	292,529	7.8	7.8	7.8	53,931	4.8	4.8	4.8
Sex								
One male	135,396	7.8	7.8	7.8	23,718	4.0	4.0	4.0
One female	97,662	9.7	8.0	8.4	17,070	7.6	5.8	6.1
Two males	8,284	7.4	7.4	7.4	1,226	2.0	2.0	2.0
Two females	8,739	7.9	7.2	5.2	1,032	2.6	1.8	.2

NOTE: See notes to table 13.A.

of higher-priced lending reflects less high-priced lending or a higher reporting threshold (although the reported incidence is also lower than in previous years in the first three months of 2009, when a much lower reporting threshold applied). Consequently, great caution should be exercised in drawing any meaningful inference about disparities in pricing across racial and ethnic groups from this portion of the analysis.

With regard to the sex of applicants, no notable differences are evident for either conventional or nonconventional lending or for either of the threshold rules.

Denial Rates by Race, Ethnicity, and Sex

Analyses of the HMDA data from earlier years have consistently found that denial rates vary across applicants grouped by race or ethnicity. In 2009, as in earlier years, for both home-purchase and refinance conventional and nonconventional lending, black and Hispanic white applicants had notably higher gross denial rates than non-Hispanic white applicants (tables 14.A, 14.B, 14.C, and 14.D). The pattern for Asian applicants is similar but much more muted. Denial rates for all groups show modest decreases from 2008 to 2009. For refinance loans, denial rates are down more substantially from 2008 but still remain much higher than rates for comparable home-purchase applicants. For example, almost one-half of black conventional refinance applicants were denied, versus only one-third of black conventional home-purchase applicants. There is no consistent pattern between conventional and nonconventional lending. Non-Hispanic white conventional and nonconventional home-purchase applicants were denied at about the same rate; nonconventional refinance applicants of the same group were denied at a much higher rate than conventional refinance applicants. Black applicants, however, consistently showed lower denial rates for nonconventional loans than for comparable conventional loans.

Controlling for borrower-related factors in the HMDA data reduces the differences among racial and ethnic groups. Accounting for the specific lender used by the applicant reduces differences further, although unexplained differences remain between non-Hispanic whites and other racial and ethnic groups. Overall, with the exception of the disparity between black and non-Hispanic white applicants for conventional refinance loans, unexplained differences are modestly reduced from 2008. With regard to the sex of applicants, no notable differences are evident for either conventional or nonconventional lending.

14. Denial rates on applications, unmodified and modified for borrower- and lender-related factors, by race and ethnicity, and sex of applicant, 2008–09

A. Home purchase, conventional loan application

Percent except as noted

Race, ethnicity, and sex	2008: Number of applications acted upon by lender	2008: Unmodified denial rate	2008: Modified denial rate, by modification factor: Borrower-related	2008: Modified denial rate, by modification factor: Borrower-related plus lender	2009: Number of applications acted upon by lender	2009: Unmodified denial rate	2009: Modified denial rate, by modification factor: Borrower-related	2009: Modified denial rate, by modification factor: Borrower-related plus lender
Race other than white only[1]								
American Indian or Alaska Native	9,939	29.7	24.6	21.0	6,677	27.7	22.6	20.4
Asian	152,213	18.7	16.6	16.8	160,900	16.6	15.6	15.5
Black or African American	105,001	36.1	29.7	25.4	50,667	32.3	27.4	24.1
Native Hawaiian or other Pacific Islander	8,016	26.9	22.7	21.0	5,335	24.1	19.9	17.6
Two or more minority races	1,669	23.6	21.9	23.8	925	26.9	18.0	18.8
Joint	28,195	14.8	17.6	15.3	25,300	13.2	15.2	14.0
Missing	220,395	21.5	19.9	17.0	182,358	19.1	17.5	15.4
White, by ethnicity[1]								
Hispanic white	160,823	31.1	22.7	22.0	90,662	25.6	19.7	19.0
Non-Hispanic white	1,425,869	13.6	13.6	13.6	1,159,857	13.1	13.1	13.1
Sex								
One male	640,030	21.3	21.3	21.3	481,586	18.0	18.0	18.0
One female	443,753	19.8	19.4	19.9	336,677	16.9	16.1	16.6
Two males	25,195	21.1	21.1	21.1	21,092	20.2	20.2	20.2
Two females	19,148	20.4	19.3	19.6	15,684	19.1	17.6	17.5

NOTE: First-lien mortgages for owner-occupied, one- to four-family, site-built properties; excludes business loans. For explanation of modification factors, see text. Applications made jointly by a male and female are not tabulated here because they would not be directly comparable with applications made by one applicant or by two applicants of the same sex.

1. See table 10.A, note 5.

14. Denial rates on applications, unmodified and modified for borrower- and lender-related factors, by race and ethnicity, and sex of applicant, 2008–09

B. Refinance, conventional loan application

Percent except as noted

Race, ethnicity, and sex	2008 Number of applications acted upon by lender	2008 Unmodified denial rate	2008 Modified denial rate, by modification factor: Borrower-related	2008 Modified denial rate, by modification factor: Borrower-related plus lender	2009 Number of applications acted upon by lender	2009 Unmodified denial rate	2009 Modified denial rate, by modification factor: Borrower-related	2009 Modified denial rate, by modification factor: Borrower-related plus lender
Race other than white only[1]								
American Indian or Alaska Native	36,265	65.4	56.7	43.0	29,013	44.1	40.4	36.5
Asian	150,970	31.6	35.4	36.1	398,222	22.8	24.8	24.3
Black or African American	343,389	61.2	59.9	44.9	268,726	49.8	44.7	38.3
Native Hawaiian or other Pacific Islander	19,275	51.8	52.2	43.4	23,332	38.8	36.4	32.1
Two or more minority races	4,682	50.5	49.7	42.0	4,660	41.8	42.6	33.1
Joint	53,200	41.8	46.0	36.8	114,738	23.4	27.6	25.2
Missing	532,425	41.5	42.5	37.8	964,105	28.9	29.1	25.5
White, by ethnicity[1]								
Hispanic white	320,845	50.6	45.3	41.3	323,805	41.0	33.0	30.1
Non-Hispanic white	2,894,154	31.7	31.7	31.7	5,726,883	21.0	21.0	21.0
Sex								
One male	1,125,624	41.5	41.5	41.5	1,621,336	29.6	29.6	29.6
One female	889,334	40.7	39.0	39.6	1,291,103	28.4	27.1	27.5
Two males	32,014	38.2	38.2	38.2	59,147	27.1	27.1	27.1
Two females	35,706	41.7	38.5	36.9	59,281	26.8	26.0	26.7

NOTE: See notes to table 14.A.

14. Denial rates on applications, unmodified and modified for borrower- and lender-related factors, by race and ethnicity, and sex of applicant, 2008–09

C. Home purchase, nonconventional loan application

Percent except as noted

Race, ethnicity, and sex	2008 Number of applications acted upon by lender	2008 Unmodified denial rate	2008 Modified denial rate, by modification factor: Borrower-related	2008 Modified denial rate, by modification factor: Borrower-related plus lender	2009 Number of applications acted upon by lender	2009 Unmodified denial rate	2009 Modified denial rate, by modification factor: Borrower-related	2009 Modified denial rate, by modification factor: Borrower-related plus lender
Race other than white only[1]								
American Indian or Alaska Native	10,154	19.7	20.6	18.6	13,392	18.5	19.4	18.5
Asian	26,711	21.3	19.2	18.6	49,739	18.5	17.7	16.8
Black or African American	161,187	25.0	24.0	22.6	161,885	23.1	21.8	20.6
Native Hawaiian or other Pacific Islander	6,581	21.7	18.9	18.3	8,267	19.8	16.3	17.4
Two or more minority races	1,141	23.8	23.3	17.3	1,282	21.5	21.2	19.5
Joint	25,123	14.7	16.2	16.3	28,304	13.7	14.5	13.9
Missing	121,400	21.9	20.8	19.8	161,196	19.3	18.6	17.2
White, by ethnicity[1]								
Hispanic white	152,228	24.0	19.8	20.0	198,875	21.4	17.5	17.6
Non-Hispanic white	890,659	14.1	14.1	14.1	1,155,799	13.1	13.1	13.1
Sex								
One male	433,829	19.0	19.0	19.0	590,855	16.9	16.9	16.9
One female	283,404	19.2	17.7	17.8	409,757	16.4	15.7	15.8
Two males	29,772	20.9	20.9	20.9	30,976	21.1	21.1	21.1
Two females	23,519	20.5	18.7	18.5	23,212	20.5	18.5	19.8

NOTE: See notes to table 14.A.

14. Denial rates on applications, unmodified and modified for borrower- and lender-related factors, by race and ethnicity, and sex of applicant, 2008–09

D. Refinance, nonconventional loan application

Percent except as noted

Race, ethnicity, and sex	2008: Number of applications acted upon by lender	2008: Unmodified denial rate	2008: Modified denial rate, by modification factor: Borrower-related	2008: Modified denial rate, by modification factor: Borrower-related plus lender	2009: Number of applications acted upon by lender	2009: Unmodified denial rate	2009: Modified denial rate, by modification factor: Borrower-related	2009: Modified denial rate, by modification factor: Borrower-related plus lender
Race other than white only[1]								
American Indian or Alaska Native	5,229	49.7	49.6	43.6	8,946	39.1	37.3	35.0
Asian	11,836	51.5	49.0	45.1	28,290	41.3	36.4	34.0
Black or African American	155,665	45.0	47.2	46.1	203,611	38.1	39.7	37.5
Native Hawaiian or other Pacific Islander	3,643	49.7	47.7	47.2	6,589	38.2	32.9	35.4
Two or more minority races	873	58.2	59.7	53.1	1,491	47.4	44.4	36.7
Joint	14,154	38.7	44.1	42.2	28,105	27.2	33.0	32.5
Missing	165,776	54.6	47.7	43.9	236,542	44.6	40.1	32.6
White, by ethnicity[1]								
Hispanic white	73,118	47.6	44.1	44.3	116,354	37.1	35.3	34.4
Non-Hispanic white	662,593	37.5	37.5	37.5	1,157,984	29.9	29.9	29.9
Sex								
One male	300,070	42.8	42.8	42.8	477,570	34.2	34.2	34.2
One female	219,503	44.0	41.2	41.3	345,310	36.0	32.8	33.0
Two males	11,826	41.8	41.8	41.8	17,944	30.6	30.6	30.6
Two females	13,808	41.2	40.3	40.3	19,001	34.3	31.7	30.8

NOTE: See notes to table 14.A.

Some Limitations of the Data in Assessing Fair Lending Compliance

In interpreting the findings in this section, it is important to note that both previous research and experience gained in the fair lending enforcement process show that differences in loan outcomes among racial or ethnic groups stem, in part, from credit-related factors not available in the HMDA data, such as measures of credit history (including credit scores), LTV and PTI, and differences in choice of loan products. Differential costs of loan origination and the competitive environment also may bear on the differences in pricing, as may differences across populations in credit-shopping activities. It is also important to note that the absence of the finding of disparities in pricing across groups does not mean that such disparities do not exist; the reporting threshold for pricing under HMDA may simply have been set too high to detect them.

Differences in pricing and underwriting outcomes may also reflect discriminatory treatment of minorities or other actions by lenders, including marketing practices. The HMDA data are regularly used to facilitate the fair lending examination and enforcement processes. When examiners for the federal banking agencies evaluate an institution's fair lending risk, they analyze HMDA price data in conjunction with other information and risk factors, as directed by the Interagency Fair Lending Examination Procedures.[68]

68. The Interagency Fair Lending Examination Procedures are available at www.ffiec.gov/PDF/fairlend.pdf.

Appendix A: Requirements of Regulation C

The Federal Reserve Board's Regulation C requires lenders to report the following information on home-purchase and home-improvement loans and on refinancing loans:

For each application or loan

- application date and the date an action was taken on the application
- action taken on the application
  - approved and originated
  - approved but not accepted by the applicant
  - denied (with the reasons for denial—voluntary for some lenders)
  - withdrawn by the applicant
  - file closed for incompleteness
- preapproval program status (for home-purchase loans only)
  - preapproval request denied by financial institution
  - preapproval request approved but not accepted by individual
- loan amount
- loan type
  - conventional
  - insured by the Federal Housing Administration
  - guaranteed by the U.S. Department of Veterans Affairs
  - backed by the Farm Service Agency or Rural Housing Service
- lien status
  - first lien
  - junior lien
  - unsecured
- loan purpose
  - home purchase
  - refinance
  - home improvement
- type of purchaser (if the lender subsequently sold the loan during the year)
  - Fannie Mae
  - Ginnie Mae
  - Freddie Mac
  - Farmer Mac
  - Private securitization
  - Commercial bank, savings bank, or savings association
  - Life insurance company, credit union, mortgage bank, or finance company
  - Affiliate institution
  - Other type of purchaser

For each applicant or co-applicant

- race
- ethnicity
- sex
- income relied on in credit decision

For each property

- location, by state, county, metropolitan statistical area, and census tract
- type of structure
  - one- to four-family dwelling
  - manufactured home
  - multifamily property (dwelling with five or more units)
- occupancy status (owner occupied, non-owner occupied, or not applicable)

For loans subject to price reporting

- spread above comparable Treasury security for applications taken prior to October 1, 2010
- spread above average prime offer rate for applications taken on or after October 1, 2010

For loans subject to the Home Ownership and Equity Protection Act

- indicator of whether loan is subject to the Home Ownership and Equity Protection Act □

Legal Developments

March 2010

Legal Developments: Fourth Quarter, 2009

ORDER ISSUED UNDER BANK HOLDING COMPANY ACT

Order Issued under Section 3 of the Bank Holding Company Act

Sandhills Bancshares, Inc.
Iraan, Texas

Order Approving the Formation of a Bank Holding Company

Sandhills Bancshares, Inc. (''Sandhills'') has requested the Board's approval under section 3 of the Bank Holding Company Act (''BHC Act'')[1] to become a bank holding company and to acquire all the voting shares of TransPecos Banks-Iraan (''Bank''),[2] both of Iraan, from TransPecos Financial Corp., San Antonio, all of Texas.[3]

Notice of the proposal, affording interested persons an opportunity to comment, has been published (74 *Federal Register* 34,015 (2009)). The time for filing comments has expired, and the Board has considered the application and all comments received in light of the factors set forth in section 3 of the BHC Act.

Sandhills is a newly organized corporation formed for the purpose of acquiring control of Bank. Bank, with total assets of approximately $23.7 million, is the 583rd largest insured depository institution in Texas, controlling deposits of approximately $21.2 million, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the state.[4]

Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or that would be in furtherance of an attempt to monopolize the business of banking in any relevant banking market. The BHC Act also prohibits the Board from approving a proposal 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]

Sandhills does not currently control a depository institution. 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.

Financial, Managerial, and Supervisory Considerations and Future Prospects

Section 3 of the BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and depository institutions involved in the proposal and certain other supervisory factors.[6] The Board has considered the factors in light of all the facts of record, including supervisory and examination information received from the relevant federal and state supervisors of Bank and publicly reported and other available financial information, including information provided by Sandhills. In addition, the Board has consulted with the primary federal and state supervisors of Bank.

In evaluating financial factors in proposals involving newly formed small bank holding companies, the Board reviews the financial condition of both the applicant and the target depository institution. The Board also evaluates the financial condition of the pro forma organization, including its capital position, asset quality, and earnings prospects,

1. 12 U.S.C. § 1842.
2. Bank's name will change to Tejas Bank after the acquisition. Bank currently has one branch in Iraan, Texas, and had filed an application with the Federal Deposit Insurance Corporation (''FDIC'') and the Texas Department of Banking (''TDOB''), Bank's primary federal and state supervisors, to establish a second branch in Monahans, Texas, on consummation of this proposal. The Board received one comment in opposition and fourteen comments in support of the proposal to establish the Monahans branch. Those comments were forwarded to the TDOB and FDIC, and both agencies have approved the proposed branch (September 8 and September 11, 2009, respectively).
3. The seller is a bank holding company with one other subsidiary bank, TransPecos Banks, Pecos, Texas.
4. Asset and deposit data are as of June 30, 2009. State ranking is based on 2008 FDIC Summary of Deposit data. In this context, insured depository institutions include commercial banks, savings banks, and savings associations.
5. 12 U.S.C. § 1842(c)(1).
6. 12 U.S.C. § 1842(c)(2) and (3).

and the impact of the proposed funding on the transaction. In addition, for proposals involving small bank holding companies, the Board evaluates the institutions' compliance with the Board's Small Bank Holding Company Policy Statement, including compliance with those measures that are to be used to assess capital adequacy and overall financial strength.[7] In assessing financial factors, the Board consistently has considered capital adequacy to be especially important.

The Board has considered carefully the financial factors of the proposal. Bank currently is well capitalized and would remain so on consummation of the proposal, and Sandhills would be in compliance with relevant capital standards. The transaction is structured as a cash purchase funded from the proceeds of an issuance of new holding company stock. Based on its review of those factors, the Board finds that Sandhills has sufficient financial resources to effect the proposal and to comply with the Board's Small Bank Holding Company Policy Statement.[8]

The Board also has considered the managerial resources of the applicant, including the proposed management of the organization. The Board has reviewed the examination records of Bank, including assessments of its current management, risk-management systems, and operations. In addition, the Board has considered the supervisory experience of the other relevant banking agencies with Bank, including its records of compliance with applicable banking laws and anti-money-laundering laws, and the proposed management officials and principal shareholders of Sandhills. The Board also has considered Sandhills' plan for the proposed acquisition, including the proposed changes in management at Bank after the acquisition.[9]

The Board also has considered carefully the future prospects of Sandhills and Bank. Based on all the facts of record, the Board concludes that considerations relating to the financial and managerial resources and future prospects involved in the proposal are consistent with approval, as are the other supervisory factors under the BHC Act.[10]

Convenience and Needs Considerations

In acting on proposals under section 3 of the BHC Act, the Board also must consider the effects of the proposal on the convenience and needs of the communities to be served and take into account the records of the relevant insured depository institutions under the Community Reinvestment Act (''CRA'').[11] Bank received a ''satisfactory'' rating at its most recent CRA performance evaluation by the FDIC, as of July 30, 2007. After consummation of the proposal, Sandhills does not plan to alter the Bank's current CRA policies. Sandhills has represented that the proposal would provide convenience to Bank's customers by continuing products and services currently offered by Bank.

Conclusion

Based on the foregoing and all 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 Sandhills with all representations and commitments made to the Board in connection with the application. For purposes of this action, 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 proposed transaction may not be consummated before the 15th 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 the Federal Reserve Bank of Dallas, acting pursuant to delegated authority.

By order of the Board of Governors, effective October 1, 2009.

Voting for this action: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Duke, and Tarullo.

Robert deV. Frierson
Deputy Secretary of the Board

7. 12 CFR 225, appendix C.

8. Sandhills also has adequate resources to finance the establishment of the proposed Monahans branch.

9. The Board received a comment regarding two proposed officers and directors of Sandhills from a bank in Monahans, Texas, where Bank plans to open its new branch. One of the individuals was previously employed by a bank that was acquired by the commenter, and the other had worked for a company that provided services to such bank. The commenter alleged that these individuals potentially could use proprietary knowledge about the commenter's operations and customers. The commenter also alleged that the proposed service of its former employee at Sandhills would violate an unwritten, implied agreement not to serve as an employee of a competitor institution. The commenter further alleged, without providing any substantiating information, that the second proposed official had previously failed to provide certain services to the bank acquired by the commenter. The proposed management officials denied the commenter's allegations, including that any implied agreement restricts the employment of any of Bank's employees. In weighing the managerial factor, the Board has considered carefully the information provided by the commenter, information on all proposed management officials provided by Sandhills, including information on the management record in banking of the individual who was employed by the bank acquired by the commenter, and available supervisory and other information.

10. The commenter also raised concerns about the future prospects of the proposed Monahans branch. As previously noted, the Board forwarded these comments to the TDOB and FDIC, the primary supervisors with jurisdiction to act on the proposed branch filings, for their consideration, and both agencies have approved establishment of the branch.

11. 12 U.S.C. § 2901 et seq.

ORDER ISSUED UNDER INTERNATIONAL BANKING ACT

Banque Transatlantique Paris, France

Order Approving Establishment of a Representative Office

Banque Transatlantique (''Bank''), Paris, France, a foreign bank within the meaning of the International Banking Act (''IBA''), has applied under section 10(a) of the IBA[1] to establish a representative office 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 representative office in the United States.

Notice of the application, affording interested persons an opportunity to submit comments, has been published in a newspaper of general circulation in New York, New York (*The Daily News*, March 16, 2009). The time for filing comments has expired, and all comments received have been considered.

Bank, with total consolidated assets of approximately $2.7 billion,[2] is a member of the Crédit Mutuel group (''CM''), one of the largest cooperative banking groups in France. Bank primarily provides private banking services to French nationals living in France and abroad. Outside France. Bank operates a branch in London, operates a representative office in Singapore, and owns more than 50 percent of Banque Transatlantique Belgium and Banque Transatlantique Luxembourg, which are banks located in Belgium and Luxembourg, respectively. The proposed representative office would be Bank's only office in the United States.[3] Bank is a direct wholly owned subsidiary of Crédit Industrial et Commercial (''CIC''), Paris, France. Through its offices and subsidiaries, CIC offers banking services directly in a number of countries worldwide and owns subsidiary banks in Switzerland, Luxembourg, and Liechtenstein.[4] In the United States, CIC operates a branch in New York, New York. CIC is majority owned by Banque Fédérative du Crédit Mutuel (''BFCM''), Strasbourg, France. BFCM does not conduct operations in the United States. BFCM is majority owned by Caisse Fédérale de Crédit Mutuel Centre Est Europe (''CFCM''), also of Strasbourg, which is Bank's ultimate parent.

CFCM is the central body for the Credit Mutuel Centre Est Europe subgroup, which consists of five federations located in Northeast France, Southeast France, Paris, the Savoie Mont-Blanc region of France, and the Mid-Atlantic region of France. CFCM is wholly owned by these five federations, which are in turn owned by their member banks. In addition to providing strategic advice to its members, CFCM through its subsidiary, BFCM, issues debt and other instruments in support of member banks and maintains the federation's solidarity fund.[5] CFCM has no direct operations in the United States and is one of 13 subgroups that are members of CM.[6] CFCM is a bank that is supervised by the French bank licensing authority, the Comité des établissements de crédit et des enterprises d'investissement (the ''Commission Bancaire'').

The proposed representative office would market the products and services of Bank to prospective French customers in the United States and would facilitate communications between Bank's existing and prospective customers and employees of Bank at its headquarters in Paris.[7] Specifically, the proposed representative office would present and promote Bank's products and services, conduct research, solicit loans of principal amounts above $250,000 and, in connection with such loans, assemble credit information, make inspections and appraisals of property, secure title information, prepare loan applications and make recommendations, and solicit other banking business except for deposits or deposit-type liabilities.

In acting on an application under the IBA and Regulation K by a foreign bank to establish a representative office, the Board shall take into account whether (1) the foreign bank has furnished to the Board the information it needs to assess the application adequately; (2) the foreign bank and any foreign bank parent engage directly in the business of banking outside of the United States; and (3) the foreign bank and any foreign bank parent are subject to comprehensive supervision on a consolidated basis by their home-country supervisor.[8] The Board also may consider addi-

1. 12 U.S.C. § 3107(a).

2. Unless otherwise indicated, data are as of December 31, 2008.

3. Bank previously had a representative office in Washington, D.C. (*see Banque Transatlantique*, 79 *Federal Reserve Bulletin* 900 (1993)), which it opened in 1993 and closed in December 2008.

4. CIC's subsidiary banks are CIC Suisse, Banque de Luxembourg, and Banque Pasche, respectively.

5. The fund serves as an emergency fund that may be used by a member bank to meet its emergency liquidity and funding needs.

6. CM consists of 1,200 cooperative banks that are grouped into 18 federations and 13 subgroups. CM does not operate under legally binding cross-guarantee mechanisms but instead the subgroups, including CFCM, maintain a solidarity fund to which all members within the subgroup contribute.

7. A representative office may engage in representational and administrative functions in connection with the banking activities of the foreign bank, including soliciting new business for the foreign bank, conducting research, acting as a liaison between the foreign bank's head office and customers in the United States, performing preliminary and servicing steps in connection with lending, and performing back-office functions. A representative office may not contract for any deposit or deposit-like liability, lend money, or engage in any other banking activity (12 CFR 211.24(d)(1)).

8. 12 U.S.C. § 3107(a)(2); 12 CFR 211.24(d)(2). In assessing the supervision standard, the Board considers, among other indicia of comprehensive, consolidated supervision, 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 the 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

tional standards set forth in the IBA and Regulation K.[9] The Board will consider that the supervision standard has been met if it determines that the applicant bank is subject to a supervisory framework that is consistent with the activities of the proposed representative office, taking into account the nature of such activities. This is a lesser standard than the comprehensive, consolidated supervision standard applicable to proposals to establish branch or agency offices of a foreign bank. The Board considers the lesser standard sufficient for approval of representative office applications because representative offices may not engage in banking activities.[10] This application has been considered under the lesser standard.

As noted above, Bank, CIC, BFCM, and CFCM engage 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.

The Commission Bancaire is the primary regulatory and supervisory authority for French banks and, as such, is the home-country supervisor of Bank, CIC, BFCM, and CFCM. The Board previously has determined that, in connection with other applications involving banks in France, those banks were subject to consolidated comprehensive supervision by the Commission Bancaire.[11] Bank, CIC, BFCM, and CFCM are supervised by the Commission Bancaire on substantially the same terms and conditions as those other French banks. 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 office.

The additional standards set forth in section 7 of the IBA and Regulation K[12] have also been taken into account. The Commission Bancaire 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 operations in its home country, its overall financial resources, and its standing with its home-country supervisor, financial and managerial factors are consistent with approval of the proposed representative office. Bank appears to have the experience and capacity to support the proposed representative office and has established controls and procedures for the proposed representative office to ensure compliance with U.S. law, as well as controls and procedures for its worldwide operations generally.

France is a member of the Financial Action Task Force (''FATF'') and subscribes to the FATF's recommendations regarding measures to combat money laundering and international terrorism. In accordance with these recommendations, France has enacted laws and created legislative and regulatory standards to deter money laundering, terrorist financing, and other illicit activities. Money laundering is a criminal offense in France, and financial services businesses are required to establish internal policies, procedures, and systems for the detection and prevention of money laundering. Bank has policies and procedures to comply with these laws and regulations, and these policies and procedures are monitored by the Commission Bancaire.

With respect to access to information on 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 and its ultimate parent CFCM 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 of 1956, as amended, 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 CFCM 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 information. In addition, subject to certain conditions, the Commission Bancaire 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 and CFCM have provided adequate assurances of access to any necessary information that the Board may request.

Based on the foregoing and all the facts of record, Bank's application to establish a representative office is hereby approved.[13] Should any restrictions on access to information on the operations or activities of Bank or 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

analysis of the bank's financial condition on a worldwide consolidated basis; and (v) evaluate prudential standards, such as capital adequacy and risk asset exposure, on a worldwide basis. No single factor is essential, and other elements may inform the Board's determination.

9. *See* 12 U.S.C. § 3105(d)(3)–(4); 12 CFR 211.24(c)(2). These standards include (1) whether the bank's home-country supervisor has consented to the establishment of the office; the financial and managerial resources of the bank; (2) whether the bank has procedures to combat money laundering, whether there is a legal regime in place in the home country to address money laundering, and whether the home country is participating in multilateral efforts to combat money laundering; (3) whether the appropriate supervisors in the home country may share information on the bank's operations with the Board; and (4) whether the bank and its U.S. affiliates are in compliance with U.S. law; the needs of the community; and the bank's record of operation. *See also Standard Chartered Bank*, 95 *Federal Reserve Bulletin* B98 (2009).

10. 12 CFR 211.24(d)(2).

11. *See, e.g., Fédération Nationale du Crédit Agricole*, 92 *Federal Reserve Bulletin* C159 (2006); *Calyon, S.A.*, 92 *Federal Reserve Bulletin* C159 (2006); BNP Paribas, 91 *Federal Reserve Bulletin* 51 (2005); *Société Générale*, 87 *Federal Reserve Bulletin* 353 (2001); *Caisse Nationale de Crédit Agricole, 86 Federal Reserve Bulletin* 412 (2000); *Crédit Agricole Indosuez*, 83 *Federal Reserve Bulletin* 1025 (1997); *Caisse Nationale de Crédit Agricole*, 81 *Federal Reserve Bulletin* 1055 (1995).

12. *See* 12 U.S.C. § 3105(d)(3)–(4); 12 CFR 211.24(c)(2).

13. 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.

indirect activities in the United States. Approval of this application also is specifically conditioned on compliance by Bank and CFCM with the conditions imposed in this order and the commitments made to the Board in connection with this application.[14] For purposes of this action, these commitments and conditions are deemed to be conditions imposed by the Board in writing in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

By order, approved pursuant to authority delegated by the Board, effective October 1, 2009.

ROBERT DEV. FRIERSON
Deputy Secretary of the Board

14. The Board's authority to approve the establishment of the proposed representative office parallels the continuing authority of the state of New York to license offices of a foreign bank. The Board's approval of this application does not supplant the authority of the state of New York or its agent, the New York State Banking Department (''Department''), to license the proposed office of Bank in accordance with any terms or conditions that the Department may impose.

July 2010

Legal Developments: First Quarter, 2010

ORDER ISSUED UNDER BANK HOLDING COMPANY ACT

Order Issued under Sections 3 and 4 of the Bank Holding Company Act

First Niagara Financial Group, Inc.
Buffalo, New York

Order Approving Formation of a Bank Holding Company and Notice to Engage in Nonbanking Activities

First Niagara Financial Group, Inc. (''FNF Group''), a savings and loan holding company that owns First Niagara Bank (''FN Bank''), both of Buffalo, a federal savings bank, and its subsidiary, First Niagara Commercial Bank (''FNC Bank''),[1] Lockport, all of New York, has requested the Board's approval to become a bank holding company by acquiring another bank holding company. FNF Group also has requested approval to operate FN Bank as a subsidiary savings association until it becomes a subsidiary bank on its conversion to a national bank.

Specifically, FNF Group has requested approval under section 3 of the BHC Act[2] to merge with Harleysville National Corporation (''Harleysville'') and thereby acquire Harleysville National Bank and Trust Company (''Harleysville Bank''), both of Harleysville, Pennsylvania. After the merger, FNF Group would convert FN Bank to a national bank and would merge FNC Bank and Harleysville Bank into FN Bank, with FN Bank as the survivor.[3] Accordingly, FNF Group has requested approval under section 3 for FN Bank to become a subsidiary bank on the proposed conversion and to hold FNC Bank as a subsidiary of FN Bank until such conversion and merger.[4] In addition, FNF Group has requested the Board's approval pursuant to sections 4(c)(8) and 4(j) of the BHC Act[5] to retain FN Bank and thereby operate FN Bank as a savings association until its conversion to a national bank. Operating a savings association is an activity permissible for bank holding companies under the Board's Regulation Y.[6] FNF Group also has requested the Board's approval under section 3 of the BHC Act to acquire Harleysville's minority ownership interest in Berkshire Bancorp, Inc. (''Berkshire'') and to own up to 19.9 percent of the voting shares of Berkshire and its subsidiary bank, Berkshire Bank, both of Wyomissing, Pennsylvania.[7]

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (75 *Federal Register* 2544 and 4395 (2010)). 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 sections 3 and 4 of the BHC Act.

FNF Group, with total consolidated assets of approximately $14.6 billion, controls FN Bank and FNC Bank, which operate in Pennsylvania and New York. FN Bank is the 18th largest insured depository institution in Pennsylvania, controlling deposits of approximately $3.7 billion, which represent 1 percent of the total amount of deposits of insured depository institutions in that state (''state deposits'').[8]

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1. FNC Bank is a state-chartered bank that accepts only municipal deposits. Although FNC Bank is a ''bank'' for purposes of the Bank Holding Company Act of 1956, as amended (''BHC Act''), FNF Group is not treated as a bank holding company. FNF Group controls FNC Bank pursuant to section 2(a)(5)(E) of the BHC Act, 12 U.S.C. § 1841(a)(5)(E), which exempts a company from treatment as a bank holding company if the state-chartered bank or trust company is owned by a thrift institution and only accepts deposits of public money.
2. 12 U.S.C. § 1842.
3. FN Bank has filed applications that are pending with the Office of the Comptroller of the Currency (''OCC'') to convert FN Bank to a national bank and to merge Harleysville Bank with and into FN Bank. All the nonbanking subsidiaries of FN Bank will remain subsidiaries of FN Bank after the conversion and merger. After its charter conversion, FN Bank will do business as First Niagara Bank, N.A.
4. The Board received comments from the Office of Thrift Supervision (''OTS''), FN Bank's primary federal supervisor, concerning FN Bank's proposed charter conversion as contemplated under the July 1, 2009, Statement on Regulatory Conversions (''Policy Statement'') issued by the Federal Financial Institutions Examination Council. The Board has considered carefully the comments made by OTS in light of the information provided by FNF Group. After consultation with other appropriate federal supervisors, and based on all the facts of record, the Board believes the transaction is consistent with the Policy Statement.
5. 12 U.S.C. §§ 1843(c)(8) and 1843(j).
6. 12 CFR 225.28(b)(4). FNF Group also has applied to retain or acquire subsidiaries that engage in lending and other credit-related activities, leasing, and the sale of credit-related insurance. These nonbanking subsidiaries are listed in Appendix A.
7. As a result of the merger, FNF Group will acquire Harleysville's ownership of 17.5 percent of Berkshire's voting shares. FNF Group also has requested approval to own up to 19.9 percent of Berkshire's voting shares.
8. Asset and deposit data are as of June 30, 2009, with the exception of data for FNF Group, which are as of September 30, 2009. Deposit data include the deposits of FNC Bank. In this context,

Harleysville, with total consolidated assets of approximately $5.2 billion, controls Harleysville Bank, which operates only in Pennsylvania. Harleysville Bank is the 17th largest insured depository institution in Pennsylvania, controlling deposits of $4 billion.

On consummation of the proposal, FNF Group would become the ninth largest depository organization in Pennsylvania, controlling deposits of approximately $7.6 billion, which represent approximately 2.5 percent of state deposits.

Berkshire Bank, with total assets of $145 million, is the 182nd largest insured depository institution in Pennsylvania. The bank operates only in Pennsylvania and controls deposits of approximately $108 million. If FNF Group were deemed to control Berkshire on consummation of the proposal, FNF Group would remain the ninth largest banking organization in Pennsylvania, controlling approximately $7.7 billion in deposits, which would represent 2.6 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 bank holding company's home state if certain conditions are met. For purposes of the BHC Act, the home state of FNF Group will be Pennsylvania,[9] and FN Bank, after the conversion, will be located in Pennsylvania and New York.[10] Based on a review of all the facts of record, including relevant state statutes, the Board finds that the conditions for an interstate acquisition enumerated in section 3(d) of the BHC Act are met in this case.[11]

Competitive Considerations

The Board has considered carefully the competitive effects of FNF Group's acquisition of Harleysville. Section 3 of the BHC Act prohibits the Board from approving a proposal that 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 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.[12] In addition, the Board must consider the competitive effects of a proposal to acquire a savings association under the public benefits factor of section 4(j) of the BHC Act.

FNF Group and Harleysville do not compete in any relevant banking market. Harleysville Bank and Berkshire Bank, however, compete in the Reading, Pennsylvania banking market (''Reading market'').[13] Although the Board has determined that FNF Group would not control Berkshire Bank, the Board previously has found that one company need not acquire control of another company to lessen competition between them substantially and has recognized that a significant reduction in competition can result from the sharing of nonpublic financial information between two organizations that are not under common control. In each case, the Board analyzes the specific facts to determine whether the minority investment in a competitor would result in significant adverse competitive effects in a banking market.[14] In particular, the Board has considered the number of competitors that would remain in the banking market; the relative shares of total deposits in depository institutions in the market (''market deposits'') controlled by FN Bank and Berkshire Bank;[15] the concentration level of market deposits and the increase in the level as measured by the Herfindahl–Hirschman Index (''HHI'') under the Department of Justice Merger Guidelines (''DOJ Guidelines'');[16] other characteristics of the market; and the

insured depository institutions include commercial banks, savings associations, and savings banks.

9. A bank holding company's home state is the state in which the total deposits of all banking subsidiaries of such company were the largest on July 1, 1966, or the date on which the company became a bank holding company, whichever is later (12 U.S.C. § 1841(o)(4)(C)). FNF Group plans to acquire Harleysville before it converts FN Bank to a national bank. Accordingly, the state where the total deposits of all of FNF Group's banking subsidiaries will be the largest is Pennsylvania on the date of consummation.

10. 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 or headquartered or operates a branch (12 U.S.C. §§ 1841 (o)(4)–(7), 1842(d)(1)(A), and 1842(d)(2)(B)).

11. 12 U.S.C. §§ 1842(d)(1)(A)–(B) and 1842(d)(2)–(3). FNF Group is adequately capitalized and adequately managed, as defined by applicable law. FN Bank has been in existence and operated for the minimum period of time required by New York law and for more than five years. *See* 12 U.S.C. § 1842(d)(1)(B)(i)–(ii). On consummation of the proposal, FNF Group would control less than 10 percent of the total amounts of deposits of insured depository institutions in the United States (12 U.S.C. § 1842(d)(2)(A)). FNF Group also would control less than 30 percent of, and less than the applicable state deposit cap for, the total amount of deposits in insured depository institutions in the relevant states (12 U.S.C. §§ 1842(d)(2)(B)–(D)). All other requirements of section 3(d) of the BHC Act would be met on consummation of the proposal.

12. 12 U.S.C. § 1842(c)(1).

13. The Reading market is defined as Berks County, Pennsylvania.

14. *See, e.g., The Bank of Nova Scotia*, 93 *Federal Reserve Bulletin* C136 (2007); *Passumpsic Bancorp*, 92 *Federal Reserve Bulletin* C175 (2006); *BOK Financial Corp*., 81 *Federal Reserve Bulletin* 1052, 1053–54 (1995); *Sun Banks, Inc*., 71 *Federal Reserve Bulletin* 243 (1985).

15. Deposit and market share data are as of June 30, 2009, and are based on calculations in which the deposits of thrift institutions are included at 50 percent, except as noted. 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). The Board regularly has included thrift institution deposits in the market share calculation on a 50 percent weighted basis. *See, e.g., First Hawaiian, Inc.*, 77 *Federal Reserve Bulletin* 52, 55 (1991). In this case, FNF Group's deposits are weighted at 50 percent pre-merger and 100 percent post-merger to reflect the resulting ownership by a commercial banking organization.

16. Under the DOJ Guidelines, a market is considered unconcentrated if the post-merger HHI is less than 1000, moderately concentrated if the post-merger HHI is between 1000 and 1800, and highly

commitments made by FNF Group to the Board not to control Berkshire and Berkshire Bank.

Consummation of the proposal would be consistent with Board precedent and within the thresholds in the DOJ Guidelines in the Reading market. On consummation of the proposal, the Reading market would remain moderately concentrated. The change in the HHI would be small, and numerous competitors would remain in the market.[17]

The Board also has carefully considered the competitive effects of FNF Group's proposed acquisition of Harleysville's other nonbanking subsidiaries and activities in light of all the facts of record. FNF Group and Harleysville do not engage in the same nonbanking activities. As a result, the Board expects that consummation of the proposal would have a de minimis effect on competition for these services.

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

Financial, Managerial, and Other Supervisory Considerations

Sections 3 and 4 of the BHC Act require 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.[18] The Board has carefully considered these factors in light of all the facts of record, including supervisory and examination information received from the relevant federal and state supervisors of the organizations involved in the proposal and other available financial information, including information provided by FNF Group.

In evaluating financial factors in expansion proposals by banking organizations, the Board reviews the financial condition of the organizations involved on both a parent-only and consolidated basis, as well as the financial condition of the subsidiary depository institutions and the organizations' significant nonbanking operations. In this evaluation, the Board considers a variety of information, including capital adequacy, asset quality, and earnings performance. In assessing financial factors, the Board consistently has considered capital adequacy to be especially important. The Board also evaluates the financial condition of the combined organization at consummation, including its capital position, asset quality, and earnings prospects, and the impact of the proposed funding of the transaction.

The Board has carefully considered the proposal under the financial factors. FNF Group, Harleysville, and their subsidiary depository institutions are well capitalized and would remain so on consummation of the proposal. Based on its review of the record, the Board also finds that FNF Group has sufficient financial resources to effect the proposal.[19] The proposed transaction is structured as a share exchange.

The Board also has considered the managerial resources of the organizations involved and the proposed combined organization. The Board has reviewed the examination records of FNF Group, Harleysville, and their subsidiary depository institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered its supervisory experiences and those of the other relevant bank and thrift institution supervisory agencies with the organizations and their records of compliance with applicable banking law, including anti-money-laundering laws. FNF Group and its subsidiary depository institutions are considered to be well managed. The Board also has considered FNF Group's plans for implementing the proposal, including the proposed management after 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 the organizations involved in the proposal are consistent with approval, as are the other supervisory factors under the BHC Act.[20]

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concentrated if the post-merger HHI is more than 1800. The Department of Justice ("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 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 entities.

17. If FNF Group were deemed to control Berkshire, FNF Group would be the ninth largest depository organization in the market, controlling $19.8 million in deposits, which would represent 2.6 percent of market deposits. The HHI would increase 3 points to 1354.

18. 12 U.S.C. § 1842(c)(2) and (3).

19. FNF Group has issued nearly $1 billion in common equity since late 2008.

20. A comment from the public expressed concern that FNF Group acquired control over Harleysville before obtaining Board approval of the application because of an extension of credit FNF Group made to Harleysville. In December 2009, and after FNF Group filed its application with the Board to acquire Harleysville, FNF Group loaned Harleysville $50 million, secured by the shares of Harleysville Bank. Harleysville invested the loan proceeds in Harleysville Bank to increase the bank's capital.

The Board is concerned when a banking organization seeking to acquire another banking organization makes a loan to the acquiree in advance of the Board's approval of the acquisition. Those types of loans raise concern that the transaction would be, in substance, the acquisition of a controlling interest or would provide the acquirer with the ability to exercise a controlling influence over the management and policies of the bank holding company before receiving Board approval. The Board has reviewed carefully the loan to Harleysville, including the circumstances and terms of the loan, the merger agreements, the purpose of the loan, and the relationships of the organizations after the loan transaction. Based on all the facts of record, the Board does not believe that the loan resulted in FNF Group acquiring voting securities of, or a controlling equity interest in, Harleysville, or in FNF Group exercising, or having the ability to exercise, a controlling influence over Harleysville in this case. The Board continues to believe that loans made by an acquirer to a target organization before agency approval of its acquisition proposal raise important issues, and it will review these arrangements critically and carefully.

Convenience and Needs and CRA Performance Considerations

In acting on a proposal under section 3 of the BHC Act, the Board must 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 depository institutions under the Community Reinvestment Act (''CRA'').[21] The Board must also review the records of performance under the CRA of the relevant insured depository institutions when acting on a notice under section 4 of the BHC Act to acquire voting securities of an insured savings association.[22]

The Board has carefully considered the convenience and needs factor and the CRA performance records of FN Bank and Harleysville Bank in light of all the facts of record. As provided in the CRA, the Board evaluates the record of performance of an institution in light of examinations by the appropriate federal supervisors of the CRA performance records of the relevant 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]

FN Bank received a ''satisfactory'' rating under the CRA at its most recent performance evaluation by the OTS, as of March 12, 2007. The OCC rated Harleysville Bank ''satisfactory'' after its most recent CRA evaluation, as of September 18, 2007. FNF Group has represented that after the acquisition of Harleysville Bank, the combined organization will offer the same or substantially similar products and services as are currently offered by the respective organizations.

The Board also has considered the fair lending records of, and the 2008 lending data reported under the Home Mortgage Disclosure Act (''HMDA'')[24] by, FN Bank and Harleysville Bank in light of a comment from the public received on the proposal. The commenter alleged, based on 2008 HMDA data, that FN Bank had denied applications for conventional home purchase loans and refinancings by minority applicants more frequently than those applications by nonminority applicants in the Buffalo MSA. The commenter also alleged that in the Philadelphia MSA in 2008, Harleysville Bank denied applications for conventional home purchase loans by minority applicants more frequently than those applications by nonminority applicants.

Although the HMDA data might reflect certain disparities in the rates of loan applications, originations, and denials among members of different racial or ethnic groups in certain local areas, they provide an insufficient basis by themselves on which to conclude whether or not FN Bank or Harleysville Bank is excluding or imposing higher costs on any group on a prohibited basis. The Board recognizes that HMDA data alone, even with the recent addition of pricing information, 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 engaged in illegal lending discrimination.

Accordingly, the Board has taken into account other information, including examination reports that provide on-site evaluations of compliance with fair lending laws by FNF Group and its subsidiaries. The Board also has consulted with the OTS and OCC about FN Bank's and Harleysville Bank's records of fair lending compliance. In addition, the Board has considered information provided by FNF Group about its compliance-risk management systems.

The record of this application, including confidential supervisory information, indicates that FNF Group has taken steps to ensure compliance with fair lending and other consumer protection laws and regulations. FNF Group represents that it has policies and procedures to help ensure compliance with all fair lending and consumer protection laws applicable to its lending activities and that its policies and procedures will apply to the combined institution on consummation of the proposal. FNF Group's compliance program includes annual training of lending personnel, regular fair lending analyses, and oversight and monitoring of consumer lending functions. Under the compliance program, FN Bank has used a third party to analyze its HMDA data for evidence of discriminatory lending patterns or practices and has provided the analysis to FN Bank's board of directors and to the OTS. FNF Group also represents that it performs quarterly loan file compliance assessments to monitor compliance with lending laws and regulations. In addition, mortgage loan applications slated for denial undergo a second review to ensure complete and careful treatment of loan applicants and to prevent discriminatory lending practices. FN Bank also has implemented a formal complaint-resolution process managed by the bank's vice president for customer relations.

Based on a review of the entire record and for the reasons discussed above, including the consultations with the OTS and OCC, the Board has concluded that considerations relating to convenience and needs and the CRA

21. 12 U.S.C. § 2903; 12 U.S.C. § 1842(c)(2).

22. *See, e.g., North Fork Bancorporation, Inc.*, 86 *Federal Reserve Bulletin* 767 (2000).

23. *See Interagency Questions and Answers Regarding Community Reinvestment*, 74 *Federal Register* 11642 at 11665 (2009).

24. 12 U.S.C. § 2801 et seq. The Board reviewed HMDA data reported by FN Bank and by Harleysville Bank in each bank's combined assessment areas, as well as in each bank's headquarters assessment area of the Buffalo, New York, Metropolitan Statistical Area (''Buffalo MSA'') and the Philadelphia, Pennsylvania, MSA (''Philadelphia MSA''), respectively.

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. In addition, credit history problems, excessive debt levels relative to income, and high loan amounts relative to the value of the real estate collateral (reasons most frequently cited for a credit denial or higher credit cost) are not available from HMDA data.

performance records of FN Bank and Harleysville Bank are consistent with approval of the proposal.

Nonbanking Activities

FNF Group also has filed a notice under sections 4(c)(8) and 4(j) of the BHC Act to retain its ownership interest in FN Bank and thereby operate a savings association and to engage in activities that are permissible for bank holding companies through its nonbanking subsidiaries, including lending, loan servicing and related activities, leasing, and the sale of credit-related insurance.[26] The Board previously has determined by regulation that the operation of a savings association by a bank holding company, and the other nonbanking activities for which FNF Group has requested approval, are closely related to banking for purposes of section 4(c)(8) of the BHC Act.[27] As part of its evaluation of the public interest factors under section 4(j) of the BHC Act, the Board also must determine that the operation of FN Bank by FNF Group ''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.''[28]

The record indicates that consummation of the proposal would create a stronger and more diversified financial services organization and would provide the current and future customers of Harleysville Bank with expanded financial products and services. For the reasons discussed above, and based on the entire record, the Board has determined that the conduct of the proposed nonbanking activities within the framework of Regulation Y and Board precedent is not likely to result in significantly adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices. Moreover, based on all the facts of record, the Board has concluded that consummation of the proposal can reasonably be expected to produce public benefits that would outweigh any likely adverse effects. Accordingly, the Board has determined that the balance of the public benefits under the standard of section 4(j)(2) of the BHC Act is consistent with approval.

FNF Group engages in certain activities that are not permissible for a bank holding company. Section 4 of the BHC Act by its terms provides a company that becomes a bank holding company two years within which to conform (including by divestiture if necessary) its existing nonbanking investments and activities to the section's requirements, with the possibility of three one-year extensions.[29] FNF Group must conform any impermissible activities and investments that it currently conducts or holds, directly or indirectly, to the requirements of the BHC Act within the time periods provided by the act.

26. 12 U.S.C. §§ 1843(c)(8) and 1843(j); *see* 12 U.S.C. § 1843(i).
27. 12 CFR 225.28(b)(1), (2), (3), (4), (8), and (11).
28. 12 U.S.C. § 1843(j)(2)(A).
29. *See* 12 U.S.C. § 1843(a)(2).

Noncontrolling Investment

As noted, FNF Group proposes to acquire 17.5 percent of Berkshire's voting shares that Harleysville currently owns and to increase up to 19.9 percent its total ownership interest of Berkshire's voting shares. Harleysville's investment in Berkshire is a passive investment, and Harleysville has complied with certain commitments previously relied on by the Board in determining that an investing bank holding company would not exercise a controlling influence over another bank holding company or bank for purposes of the BHC Act (''Passivity Commitments'').[30] FNF Group has stated that it does not propose to control or exercise a controlling influence over Berkshire and that its indirect investment in Berkshire Bank also would be a passive investment. In this light, FNF Group has provided the Passivity Commitments to the Board.[31] For example, among other things, FNF Group has committed not to exercise or attempt to exercise a controlling influence over the management or policies of Berkshire or any of its subsidiaries; not to have or seek to have any employee or representative of FNF Group or its affiliates serve as an officer, agent, or employee of Berkshire or any of its subsidiaries; and not to seek or accept representation on the board of directors of Berkshire or any of its subsidiaries. FNF Group also has committed not to attempt to influence the dividend policies, loan decisions, or operations of Berkshire Bank or any of its subsidiaries.

Based on these considerations and all the other facts of record, the Board has concluded that FNF Group would not acquire control of, or have the ability to exercise a controlling influence over, Berkshire or Berkshire Bank through the proposed acquisition of Berkshire's voting shares. The Board also notes that the BHC Act would require FNF Group to file an application and receive the Board's approval before the company could directly or indirectly acquire additional shares of Berkshire or attempt to exercise a controlling influence over Berkshire or Berkshire Bank.[32]

30. Although 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, 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 percent and 25 percent of the voting shares of banks. *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. *See, e.g., Penn Bancshares, Inc.*, 92 *Federal Reserve Bulletin* C37 (2006) (acquisition of up to 24.89 percent of the voting shares of a bank holding company); *S&T Bancorp Inc.*, 91 *Federal Reserve Bulletin* 74 (2005) (acquisition of up to 24.9 percent of the voting shares of a bank holding company); *Brookline Bancorp, MHC*, 86 *Federal Reserve Bulletin* 52 (2000) (acquisition of up to 9.9 percent of the voting shares of a bank holding company).
31. The commitments made by FNF Group are set forth in Appendix B.
32. *See, e.g., Emigrant Bancorp, Inc.*, 82 *Federal Reserve Bulletin* 555 (1996); *First Community Bancshares, Inc.*, 77 *Federal Reserve Bulletin* 50 (1991).

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the applications under section 3 and the notice under section 4 of the BHC Act should be, and hereby are, approved.[33] 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 FNF Group with all the conditions imposed in this order and all the commitments made to the Board in connection with the applications and notice and on the receipt of all other required regulatory approvals for the proposal. The Board's approval of the proposed nonbanking activities is subject to all the conditions set forth in Regulation Y, including those in sections 225.7 and 225.25(c),[34] 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 issued thereunder. These conditions 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 proposal may not be consummated before the 15th 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 the Federal Reserve Bank of New York, acting pursuant to delegated authority.

By order of the Board of Governors, effective March 25, 2010.

33. The commenter also 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 authorities for the bank to be acquired make a timely written recommendation of denial of the application (12 CFR 225.16(e)). The Board has not received such a recommendation from the appropriate supervisory authorities. The Board's regulations provide for a hearing under section 4 of the BHC Act if there are disputed issues of material fact that cannot be resolved in some other manner (12 CFR 225.25(a)(2)). 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 CFR 262.3(e) and 262.25(d)). The Board has considered carefully the commenter's request in light of all the facts of record. In the Board's view, the commenter has had ample opportunity to submit views and, in fact, submitted written comments that the Board has considered carefully in acting on the proposal. The request 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.

34. 12 CFR 225.7 and 225.25(c)).

Voting for this action: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Duke, and Tarullo.

Robert deV. Frierson
Deputy Secretary of the Board

Appendix A

FNF Group's Nonbanking Subsidiaries

Nonbanking Subsidiaries Retained by FNF Group

1. Homestead Funding Corporation and thereby engage in activities related to extending credit, in accordance with section 225.28(b)(2) of Regulation Y (12 CFR 225.28(b)(2)).

Nonbanking Subsidiaries Acquired from Harleysville by FNF Group

2. Harleysville Financial Company (in dissolution) and thereby engage in investment transactions as principal, in accordance with section 225.28(b)(8) of Regulation Y (12 CFR 225.28(b)(8)).
3. Harleysville Reinsurance Company and thereby engage in insurance activities, in accordance with section 225.28(b)(11) of Regulation Y (12 CFR 225.28(b)(11)).

Appendix B

FNF Group's Passivity Commitments

FNF Group will not, without the prior approval of the Board of Governors of the Federal Reserve System (''Board'') or its staff, directly or indirectly:

1. Exercise or attempt to exercise a controlling influence over the management or policies of Berkshire Bancorp, Inc. (''Berkshire''), Wyomissing, Pennsylvania, or any of its subsidiaries;
2. Have or seek to have a representative of FNF Group serve on the board of directors of Berkshire or any of its subsidiaries;
3. Have or seek to have any employee or representative of FNF Group serve as an officer, agent, or employee of Berkshire or any of its subsidiaries;
4. Take any action that would cause Berkshire or any of its subsidiaries to become a subsidiary of FNF Group;
5. Acquire or retain shares that would cause the combined interests of FNF Group and its officers, directors, and affiliates to equal or exceed 19.9 percent of the outstanding voting shares of Berkshire 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 Berkshire or any of its subsidiaries;
7. Solicit or participate in soliciting proxies with respect to any matter presented to the shareholders of Berkshire or any of its subsidiaries;
8. Attempt to influence the dividend policies; loan, credit, or investment decisions or policies; 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 Berkshire or any of its subsidiaries;

9. Dispose or threaten to dispose (explicitly or implicitly) of shares of Berkshire in any manner as a condition or inducement of specific action or non-action by Berkshire or any of its subsidiaries;
10. Enter into any other banking or nonbanking transactions with Berkshire or any of its subsidiaries, except that FNF Group may establish and maintain deposit accounts with Berkshire, 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 Berkshire.
11. Acquire or seek to acquire any nonpublic financial information of Berkshire or any of its subsidiaries, beyond the information already available to it as a shareholder of Berkshire. FNF Group also confirms that there are no legal, contractual, or statutory provisions that would allow it or its subsidiaries to have any access to financial information of Berkshire or its subsidiaries beyond the information available to shareholders.

The terms used in these commitments have the same meanings as set forth in the BHC Act and the Board's Regulation Y.

ORDER ISSUED UNDER FEDERAL RESERVE ACT

The Warehouse Trust Company LLC New York, New York

Order Approving Application for Membership

The Warehouse Trust Company LLC (''Warehouse Trust''), an uninsured trust company under New York law,[1] has requested the Board's approval under section 9 of the Federal Reserve Act (the ''Act'')[2] to become a member of the Federal Reserve System.[3] Warehouse Trust proposes to operate a central trade registry for credit default swap (''CDS'') contracts and to offer related services, including the processing of life-cycle events for the contracts and facilitation of payments settlement.

Warehouse Trust is a wholly owned subsidiary of DTCC Deriv/SERV LLC (''Deriv/SERV''), which in turn is a wholly owned subsidiary of The Depository Trust & Clearing Corporation (''DTCC'').[4] Through its subsidiaries, DTCC provides clearing and settlement services with respect to equities, corporate and municipal bonds, government and mortgage-backed securities, money market instruments, and over-the-counter (''OTC'') derivatives.

MarkitSERV LLC (''MarkitSERV''), a subsidiary of Deriv/SERV, provides a confirmation and matching service for OTC derivatives trades, under which parties to trades submit transaction information to MarkitSERV, which then compares the information received, and matches, confirms, and reports discrepancies in unmatched trades.[5] Information on confirmed CDS transactions flows into Deriv/SERV's Trade Information Warehouse (''TIW'').[6] TIW creates a unique electronic record for each contract, which then is deemed to be the official record of the contract for the contracting parties. TIW updates the record for credit events over the life of the contract, including transfers, terminations, and reorganizations, and for credit events such as a reference entity's bankruptcy or default. In addition, TIW calculates payments as they come due on the contracts and transmits payment instructions to facilitate settlement. All of TIW's operations will be transferred to Warehouse Trust when Warehouse Trust opens for business.

Factors Governing Board Review of the Proposal

In acting on an application for membership in the Federal Reserve System, the Board is required by the Act and Regulation H to consider the financial history and condition of the applying bank; the adequacy of its capital in relation to its assets and to its prospective deposit liabilities and other corporate responsibilities; its future earnings prospects; the general character of its management; whether its corporate powers are consistent with the purposes of the Act; and the convenience and needs of the community to be served.[7] In addition, all state member banks are required to establish and maintain programs for compliance with the Bank Secrecy Act.[8]

According to DTCC, TIW currently houses the records of approximately 95 percent of CDS trades worldwide. The

1. Under New York law, a limited-liability trust company may not accept deposits from the general public and must obtain an exemption from the general requirement under state law that New York-chartered banks and trust companies have federal deposit insurance. *See* New York Banking Law §§ 32 and 102a. The New York State Banking Board (''NYSBB'') has approved Warehouse Trust's articles of organization and its exemption from the deposit insurance requirement. *See* letter from NYSBB to Douglas J. McClintock, Esq., November 5, 2009.
2. 12 U.S.C. § 321 et seq.
3. 12 U.S.C. §§ 221 and 321. Warehouse Trust would be a bank for purposes of the Act and, therefore, is eligible for membership in the Federal Reserve System.
4. Neither The Depository Trust Company (''DTC''), a state member bank subsidiary of DTCC in New York, New York, nor Warehouse Trust, are banks as defined in the Bank Holding Company Act (''BHC Act'') (12 U.S.C. § 1841 et seq.). *See* 12 U.S.C. § 1841(c)(1). Deriv/SERV and DTCC, therefore, are not bank holding companies for purposes of the BHC Act. The NYSBB has approved DTCC's application to become a bank holding company under New York law when Warehouse Trust opens for business. *See* New York Banking Law § 142.
5. MarkitSERV is a joint venture of Deriv/SERV and Markit, a company that provides data, trade processing, and other services to the derivatives markets.
6. MarkitSERV also provides matching and confirmation services for OTC equity and interest rate derivatives in addition to CDS, but only confirmed CDS contracts are recorded by TIW.
7. 12 U.S.C. §§ 322 and 329; 12 CFR 208.3(b)(3).
8. 12 CFR 208.63.

Board, therefore, has also reviewed the applicable factors in light of elements of the Federal Reserve's Policy on Payment System Risk ("PSR Policy") that are relevant to Warehouse Trust.[9] These elements include standards regarding participation and access criteria, operational risk and reliability, and governance.[10]

Financial Considerations

In considering the financial history and condition, future earnings prospects, capital adequacy, and other financial factors as they relate to this proposal, the Board has reviewed Warehouse Trust's business plan and financial projections and has assessed the adequacy of its anticipated capital levels in light of the proposed assets and liabilities. TIW has been in business since November 2006, and because Warehouse Trust will assume TIW's operations, the Board has also considered TIW's financial history and condition. Warehouse Trust will be well capitalized at the time it commences operations, and it will maintain capital that is sufficient to allow for an orderly wind-down if confronted with the need to cease operations.[11]

After carefully considering all the facts of record, the Board has concluded that Warehouse Trust's financial condition, capital adequacy, future earnings prospects, and other financial factors are consistent with approval of the proposal.

Managerial Considerations

In reviewing Warehouse Trust's managerial resources, the Board has considered carefully the experience of Warehouse Trust's proposed management, as well as its planned risk-management systems, operations, and anti-money-laundering compliance program. In addition, the Board has reviewed Warehouse Trust's proposed governance arrangements. The Board notes that the directors and officers of Warehouse Trust are all currently employed in similar capacities by DTCC and its subsidiaries. The Board has also considered its supervisory experience with the DTCC organization, the parent of Warehouse Trust, including the compliance record of DTC with applicable banking laws and anti-money-laundering laws.

Based on this review and all the facts of record, the Board has concluded that the general character of Warehouse Trust's management is consistent with approval of the proposal.

Other Considerations

In considering whether the corporate powers exercised by Warehouse Trust are consistent with the purposes of the Act, the Board notes that Warehouse Trust's proposed activities are permissible for a state member bank under the Act's applicable provisions and would not pose substantial risks to the bank's safety and soundness.[12] Under Regulation H, Warehouse Trust would be required to obtain the Board's approval before changing the general character of its business or the scope of the corporate powers it exercises.[13] In addition, Warehouse Trust has provided the Board with several commitments intended to ensure that the Board will have adequate enforcement authority over Warehouse Trust as an uninsured state member bank.[14] For these reasons and based on a review of the entire record, the Board has concluded that this consideration is consistent with approval of the proposal.

The Board also has considered the convenience and needs of the community to be served.[15] As the primary trade repository for CDS, the TIW is an essential component of the market infrastructure for CDS, and Warehouse Trust membership in the Federal Reserve System would subject DTCC's provision of CDS trade repository services to active federal banking agency oversight for the first time. Warehouse Trust would promote greater market transparency by making CDS data publicly available pursuant to applicable statutes, regulations, policy statements, and guidance. For these reasons and based on a review of the entire record, the Board has concluded that the convenience and needs considerations are consistent with approval of the proposal.

Conclusion

Based on the foregoing and all the facts of record, including all the commitments, stipulations, and representations made in connection with the application, and subject to all the terms and conditions set forth in this order, the Board has determined that Warehouse Trust's application for membership in the Federal Reserve System should be, and hereby is, approved. The Board's approval is specifically conditioned on compliance with Regulation H,[16] with receipt of

9. *Federal Reserve Policy on Payments System Risk*, available at www.federalreserve.gov/paymentsystems/psr/default.htm. The PSR Policy incorporates minimum standards issued jointly by the Committee on Payment and Settlement Systems of the Bank for International Settlements and by the Technical Committee of the International Organization of Securities Commissioners with respect to central counterparties (*Recommendations for Central Counterparties* ("RCCP"), issued in November 2004) and with respect to securities settlement systems (*Recommendations for Securities Settlement Systems* ("RSSS"), issued in November 2001).

10. RCCP 2, 8, and 13; RSSS 11, 13, and 14.

11. In addition, the Board retains the authority to specify capital requirements for Warehouse Trust if the Board at any time concludes that Warehouse Trust's capital is inadequate in view of its assets, liabilities, and responsibilities (12 CFR 208.4(a)).

12. *See* 12 U.S.C. §§ 330 and 335.

13. 12 CFR 208.3(d)(2).

14. Warehouse Trust has stipulated that it will be subject to the supervisory, examination, and enforcement authority of the Board under the Federal Deposit Insurance Act as if Warehouse Trust were an insured depository institution for which the Board is the appropriate federal banking agency under that act.

15. Because Warehouse Trust will not accept deposits or have federal deposit insurance, it will not be subject to the Community Reinvestment Act (12 U.S.C. § 2901 et seq).

16. 12 CFR part 208.

required authorizations from the New York State Banking Department,[17] and with all the commitments, stipulations, and representations made in connection with the application, including the commitments and conditions discussed in this order.[18] The commitments, stipulations, representations, and conditions relied on in reaching this decision shall be 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.

Warehouse Trust will become a member of the Federal Reserve System upon its purchase of stock in the Federal Reserve Bank of New York (''Reserve Bank''). This transaction must occur not later than three months after the effective date of this order, unless such period is extended for good cause by the Board or the Reserve Bank acting pursuant to delegated authority.

By order of the Board of Governors, effective February 2, 2010.

Voting for this action: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Duke, and Tarullo.

ROBERT deV. FRIERSON
Deputy Secretary of the Board

ORDER ISSUED UNDER INTERNATIONAL BANKING ACT

ABN AMRO Bank N.V. Amsterdam, The Netherlands

Order Approving Establishment of a Representative Office

ABN AMRO Bank N.V., Amsterdam, The Netherlands (''Bank''), a foreign bank within the meaning of the International Banking Act (''IBA''), has applied under section 10(a) of the IBA[1] to establish a representative office 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 representative office in the United States.

Notice of the application, affording interested persons an opportunity to submit comments, has been published in a newspaper of general circulation in New York (*The New York Times*, January 26, 2010). The time for filing comments has expired, and all comments received have been considered.

Bank, with total consolidated assets of approximately $276 billion, is the third largest bank in The Netherlands.[2] Bank is indirectly owned by a consortium (''Consortium'') composed of the government of The Netherlands, the Royal Bank of Scotland Group plc (''RBS''), and Banco Santander S.A. (''Santander'').[3] Bank is a newly licensed entity resulting from the decision by the Consortium to divide the businesses of the entity formerly called ABN AMRO Bank (''Former ABN AMRO''). Certain assets of Former ABN AMRO (''State Allocated Assets'') have been allocated by the Consortium to the government of The Netherlands. On February 6, 2010, the State Allocated Assets were transferred to Bank from Former ABN AMRO, and Former ABN AMRO was renamed The Royal Bank of Scotland N.V. The members of the Consortium remained the indirect parents of Bank after the transfer. In a transaction scheduled to occur on March 31, 2010, the government of The Netherlands will become the sole owner of Bank.

The operations of Former ABN AMRO allocated to Bank include The Netherlands business, the global private client business, most of the global asset management business, and the global diamond and jewelry financing business. Subject to receipt of required regulatory approvals, Bank plans to operate branch offices in Belgium, Dubai, Hong Kong, India, Japan, Jersey, and Singapore; a representative office in Spain; and subsidiaries in Botswana, France, Germany, Luxembourg, and Switzerland. The proposed New York representative office will solicit loans and market other products of Bank in the United States, perform preliminary and servicing steps in connection with lending, and act as a liaison between Bank and its prospective U.S.-based customers.[4]

In acting on an application under the IBA and Regulation K by a foreign bank to establish a representative office, the Board shall take into account whether (1) the foreign bank has furnished to the Board the information it needs to assess the application adequately; (2) the foreign bank and any foreign bank parent engage directly in the business of banking outside of the United States; and (3) the foreign bank and any foreign bank parent are subject to comprehensive supervision on a consolidated basis by their home-

17. Before Warehouse Trust may begin operations, the Superintendent must issue an authorization certificate. *See* New York Banking Law § 25.

18. As a condition of the Board's approval, Warehouse Trust will, before purchasing stock in the Federal Reserve Bank of New York, take certain actions and execute certain commitments to the Board. These commitments and conditions also shall be deemed to be conditions imposed in writing by the Board in connection with its findings and decision on Warehouse Trust's application.

1. 12 U.S.C. § 3107(a).

2. Data are as of September 30, 2009, and are on a pro forma basis.

3. Bank is wholly owned by RFS Holdings B.V., a Netherlands corporation (''RFS''). RBS owns 38.3 percent of RFS, the government of The Netherlands owns 33.8 percent, and Santander owns 27.9 percent. The government of the United Kingdom owns 84 percent of RBS.

4. A representative office may engage in representational and administrative functions in connection with the banking activities of the foreign bank, including soliciting new business for the foreign bank; conducting research; acting as a liaison between the foreign bank's head office and customers in the United States; performing preliminary and servicing steps in connection with lending; and performing back-office functions. A representative office may not contract for any deposit or deposit-like liability, lend money, or engage in any other banking activity (12 CFR 211.24(d)(1)).

country supervisor.[5] The Board may also consider additional standards set forth in the IBA and Regulation K.[6] The Board will consider that the supervision standard has been met if it determines that the applicant bank is subject to a supervisory framework that is consistent with the activities of the proposed representative office, taking into account the nature of such activities. This is a lesser standard than the comprehensive, consolidated supervision standard applicable to applications to establish branch or agency offices of a foreign bank. The Board considers the lesser standard sufficient for approval of representative office applications because representative offices may not engage in banking activities.[7] This application has been considered under the lesser standard.

As noted above, Bank engages directly in the business of banking outside the United States. Santander also engages directly in the business of banking outside the United States. Bank has provided the Board with information necessary to assess the application through submissions that address the relevant issues. At the proposed representative office, Bank may engage only in activities permissible for a representative office under Regulation K, which include the proposed solicitation and customer-liaison activities noted above.[8]

With respect to supervision by home-country authorities, the Board has considered that Bank is supervised by De Nederlandsche Bank N.V. (''DNB''), the primary regulator of financial institutions in The Netherlands. The Board previously has considered the supervisory regime in The Netherlands for financial institutions in connection with applications involving other Netherlands banks.[9] Bank is supervised by the DNB on substantially the same terms and conditions as those other banks. Based on all the facts of record, it has been determined that Bank is subject to a supervisory framework that is consistent with the activities of the proposed representative office, taking into account the nature of such activities.[10]

The additional standards set forth in section 7 of the IBA and Regulation K have also been taken into account.[11] The DNB has no objection to the establishment of the proposed representative office.

With respect to the financial and managerial resources of Bank, taking into consideration the record of operation of Former ABN AMRO in its home country, its overall financial resources, and its standing with its home-country supervisor, financial and managerial factors are consistent with approval of the proposed representative office. Bank appears to have the experience and capacity to support the proposed representative office and has established controls and procedures for the proposed representative office to ensure compliance with U.S. law, as well as controls and procedures for its worldwide operations generally.

The Netherlands 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 Netherlands has enacted laws and created legislative and regulatory standards to deter money laundering, terrorist financing, and other illicit activities. Money laundering is a criminal offense in The Netherlands, 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 that are monitored by governmental entities responsible for anti-money-laundering compliance.

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 Santander have committed to make available to the Board such information on Bank's operations 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 Santander have commit-

5. 12 U.S.C. § 3107(a)(2); 12 CFR 211.24(d)(2). In assessing the supervision standard, the Board considers, among other indicia of comprehensive, consolidated supervision, the extent to which 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 the 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; and (v) evaluate prudential standards such as capital adequacy and risk asset exposure, on a worldwide basis. No single factor is essential, and other elements may inform the Board's determination.

6. *See* 12 U.S.C. § 3105(d)(3)–(4); 12 CFR 211.24(c)(2). These standards include (1) whether the bank's home-country supervisor has consented to the establishment of the office; the financial and managerial resources of the bank; (2) whether the bank has procedures to combat money laundering, whether there is a legal regime in place in the home country to address money laundering, and whether the home country is participating in multilateral efforts to combat money laundering; (3) whether the appropriate supervisors in the home country may share information on the bank's operations with the Board; and (4) whether the bank and its U.S. affiliates are in compliance with U.S. law; the needs of the community; and the bank's record of operation. *See also Standard Chartered Bank*, 95 *Federal Reserve Bulletin* B98 (2009).

7. *See* 12 CFR 211.24(d)(2).

8. *See supra* note 4.

9. *See Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A., Rabobank Nederland*, 89 *Federal Reserve Bulletin* 81 (2003); *see also ING Bank*, 85 *Federal Reserve Bulletin* 448 (1999).

10. Santander has been found to be subject to comprehensive consolidated supervision by the Bank of Spain. *See, e.g., Banco Santander S.A.*, 85 *Federal Reserve Bulletin* 441 (1999). The Royal Bank of Scotland plc, a United Kingdom bank subsidiary of RBS, has been found to be subject to comprehensive consolidated supervision by the United Kingdom Financial Services Authority. *The Royal Bank of Scotland plc*, 93 *Federal Reserve Bulletin* C104 (2007).

11. *See supra* note 6.

ted 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 addition, subject to certain conditions, the DNB 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 and Santander have provided adequate assurances of access to any necessary information that the Board may request.

Based on the foregoing and all the facts of record, Bank's application to establish the representative office is hereby approved.[12] 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. Approval of this application also is specifically conditioned on compliance by Bank and Santander with the conditions imposed in this order and the commitments made to the Board in connection with this application.[13] For purposes of this action, these commitments and conditions are deemed to be conditions imposed by the Board in writing in connection with these findings and decision and, as such, may be enforced in proceedings under applicable law.

By order, approved pursuant to authority delegated by the Board, effective February 26, 2010.

ROBERT deV. FRIERSON
Deputy Secretary of the Board

FINAL ENFORCEMENT DECISION ISSUED BY THE BOARD

IN THE MATTER OF

Adam L. Benarroch, A former institution-affiliated party of

Midwest Bank and Trust, Elmwood Park, Illinois

Docket No. 09-052-I-E

12. 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.

13. The Board's authority to approve the establishment of the proposed representative office parallels the continuing authority of the state of New York to license offices of a foreign bank. The Board's approval of this application does not supplant the authority of the state of New York or its agent, the New York State Banking Department (''Department''), to license the proposed office of Bank in accordance with any terms or conditions that the Department may impose.

FINAL DECISION

This is an administrative proceeding pursuant to the Federal Deposit Insurance Act (''FDI Act'') in which the Board of Governors of the Federal Reserve System (''Board'') seeks to prohibit the Respondent, Adam L. Benarroch (''Respondent''), from further participation in the affairs of any financial institution based on actions he took while employed as an Assistant Vice President at Midwest Bank and Trust, Elmwood Park, Illinois (''Midwest'').

Upon review of the administrative record, the Board issues this Final Decision adopting the Recommended Decision of Administrative Law Judge C. Richard Miserendino (''ALJ''), and orders the issuance of the attached Order of Prohibition.

I. PROCEDURAL HISTORY

On April 14, 2009, the Board issued a Notice upon Respondent that sought an order of prohibition against him based on his fabrication of bank documents and forgery of the signatures of bank officials in connection with origination of loans while he was an Assistant Vice President of Midwest. After several extensions, Respondent appeared *pro se* and filed his Answer on July 27, 2009. Respondent's Answer does not deny the specific allegations of the Notice. Rather, it concedes that the Respondent made certain ''bad decisions while employed at Midwest Bank and Trust Company'' and claims that he operated ''under tremendous pressure to close loan transactions'' as his year-end bonus depended on loan volume. Respondent claims that he lacked the necessary assistance in this position to perform his duties and he apologized ''for putting the bank in jeopardy'' through the various loan transactions at issue here. Respondent concluded his Answer by requesting a second chance in the banking industry short of a permanent ban, and proposing certain limitations and restrictions on permitted activities (limitations short of prohibition) that would enable him to continue to work in the industry.

On September 16, 2009, Board Enforcement Counsel moved for summary disposition of the proceeding and submitted documentary evidence supporting the allegations of the Notice. Board Enforcement Counsel contended that no genuine issue of material fact existed and that the Board was therefore entitled to the relief sought in the Notice. In his October 7, 2009, response, Respondent conceded the factual assertions set forth in the evidentiary exhibits submitted in support of the motion and again offered apologies for his actions. Respondent also offered further details concerning his personal, professional, and family situation, which he submitted in mitigation of the offenses he otherwise admits.

On October 29, 2009, the ALJ granted the Board's Motion for Summary Disposition because there were no material facts in dispute and the evidence presented by Enforcement Counsel supported an order prohibiting Respondent from further participation in the industry, as provided in section 8(e) of the FDI Act, 12 U.S.C.

§ 1818(e). On November 30, 2009, Respondent submitted a document entitled ''Appeal,'' in which he specifically states that he ''do[es] not deny the specific [allegations] in the Notice'' but asks that the decision be modified for several other reasons, including the fact that he could not afford to hire an attorney to represent him throughout this process.

II. Statutory and Regulatory Framework

Under the FDI Act and the Board's regulations, the ALJ is responsible for conducting proceedings on a notice of charges relating to a proposed order of prohibition (12 U.S.C. § 1818(e)(4)). The ALJ issues a recommended decision that is referred to the Board together with any exceptions to those recommendations filed by the parties. The Board makes the final findings of fact, conclusions of law, and determination whether to issue the requested order. *Id*;, 12 CFR 263.40.

The FDI Act sets forth the substantive basis upon which a federal banking agency may issue against a bank official or employee an order of prohibition from further participation in banking. To issue such an order, the Board must make each of three findings: (1) that the individual engaged in identified *misconduct*, including a violation of law or regulation, an unsafe or unsound practice, or a breach of fiduciary duty; (2) that the conduct had a specified *effect*, including financial loss to the institution or gain to the respondent; and (3) that the respondent's conduct involved *culpability* of a certain degree — either personal dishonesty or a willful or continuing disregard for the safety or soundness of the institution (12 U.S.C. § 1818(e)(1)(A)–(C)).

III. Facts

The undisputed facts of this case show that with respect to 14 loan transactions handled by Respondent, Respondent forged signatures of bank officers, fabricated documents to make it appear that loans had been properly approved when they had not, and changed the terms of approved loans to the detriment of Midwest, including increasing the amount of the loan and lowering the interest rate and fees. As a result of these actions, Midwest was exposed to additional risk on numerous loans, was deprived of more than $350,000 in interest and fees, and was forced to write off $109,000 in principal. The specific details regarding each of the loan transactions are recounted in the ALJ's Recommended Decision on Summary Disposition. (Rec. Dec., pages 3-16.)

IV. Legal Conclusions

The Board has reviewed the record in this matter and finds that the ALJ properly granted Enforcement Counsel's Motion for Summary Disposition. As explained below, the Board agrees that a prohibition order should be issued.

a. Respondent's Appeal dated November 30, 2009

As previously noted, Respondent filed an Appeal at the point at which exceptions to the ALJ's recommended decision were permitted by the Board's regulations (12 CFR 263.39(a)). The regulation provides that exceptions must ''set forth page or paragraph references to the specific parts of the administrative law judge's recommendations to which exception is taken, the page or paragraph references to those portions of the record relied upon to support each exception, and the legal authority relied upon to support each exception'' (12 CFR 263.39(c)(2)). Failure of a party to file exceptions to a finding, conclusion, or proposed order ''is deemed a waiver of objection'' (12 CFR 263.39(b)(1).

Respondent's Appeal does not conform to any of the requirements of a valid exception. It does not identify the portions of the ALJ's recommendation to which an exception was taken or cite the portions of the record or legal authority in support of its position. Accordingly, the Respondent is deemed to have waived his right to object to any portion of the Recommended Decision.

However, even if Respondent's filing could be considered a valid exception, the Board finds that it raises no meritorious claim. In his Appeal, Respondent does not contest the allegations in the Notice, but requests that the Board modify the final decision because (1) Respondent could not afford an attorney during the process and did not have an adequate defense; (2) Respondent misunderstood Enforcement Counsel's statement regarding his fifth amendment right against self-incrimination; (3) Respondent was terminated from employment at a different financial institution because his employer was informed of these public proceedings; and (4) the financial condition of Midwest has significantly deteriorated. None of these issues merits modification of the ALJ's final decision.

First, Enforcement Counsel consented to and the ALJ provided several extensions to permit Respondent time to find counsel to represent him. A respondent in this type of administrative action is not entitled to free counsel, and Respondent's inability to pay for counsel does not taint these proceedings. *See, e.g., Crothers v. Commodities Futures Trading Comm'n*, 33 F.3d 405 (4th Cir. 1994) (sixth amendment rights inapplicable to administrative license revocation proceedings). Second, although it appears that Respondent initially misunderstood Enforcement Counsel's statement regarding his fifth amendment rights and may have believed he did not have to respond to the Notice of Charges, this issue was clarified and he was given additional time to respond. As noted, in his response he did not contest the facts stated in the Notice. Third, the fact that Respondent was terminated from employment at another institution as a result of the pendency of this case does not suggest that a prohibition order should not issue. In fact, Respondent will be prohibited from such employment upon issuance of the order. Finally, the current financial condition of Midwest is irrelevant to these proceedings. Accordingly, even if Respondent's Appeal qualified as an exception, it would be entirely unpersuasive.

b. Prohibition Order

The Respondent does not contest any of the allegations in the administrative record, including Enforcement Counsel's initial Notice or the summary of facts in the ALJ's Recommended Decision. Based on the undisputed evidence in the administrative record, Respondent's actions satisfy the misconduct, effect, and culpability elements required for an order of prohibition.

The Respondent's conduct meets all the criteria for entry of an order of prohibition under 12 U.S.C. § 1818(e). Creating false entries in the books and records of a bank violates 18 U.S.C. § 1005, and constitutes an unsafe or unsound practice. Exposing the bank to additional risk and lowering interest rates and fees breaches a bank employee's fiduciary duty. Respondent's actions caused actual losses to Midwest of over $460,000. Finally, Respondent's actions also exhibit both personal dishonesty and a willful and continuing disregard for the safety or soundness of Midwest. Accordingly, the requirements for an order of prohibition have been met and the Board hereby issues such an order.

Conclusion

For these reasons, the Board orders the issuance of the attached Order of Prohibition.

By Order of the Board of Governors, this 12th day of March, 2010.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

JENNIFER J. JOHNSON
Secretary of the Board

Order of Prohibition

WHEREAS, pursuant to section 8(e) of the Federal Deposit Insurance Act, as amended ("FDI Act") (12 U.S.C. § 1818(e)), the Board of Governors of the Federal Reserve System ("Board") is of the opinion, for the reasons set forth in the accompanying Final Decision, that a final Order of Prohibition should issue against ADAM L. BENARROCH ("Benarroch"), a former employee and institution-affiliated party, as defined in section 3(u) of the FDI Act (12 U.S.C. § 1813(u)) of Midwest Bank and Trust, Elmwood Park, Illinois ("Midwest").

NOW, THEREFORE, IT IS HEREBY ORDERED, pursuant to section 8(e) of the FDI Act, 12 U.S.C. § 1818(e), that:

1. In the absence of prior written approval by the Board, and by any other Federal financial institution regulatory agency where necessary pursuant to section 8(e)(7)(B) of the FDI Act (12 U.S.C. § 1818(e)(7)(B)), Benarroch is hereby prohibited:
   a. from participating in any manner in the conduct of the affairs of any institution or agency specified in section 8(e)(7)(A) of the FDI Act (12 U.S.C. § 1818(e)(7)(A)), including, but not limited to, any insured depository institution, any insured depository institution holding company or any U.S. branch or agency of a foreign banking organization;
   b. from soliciting, procuring, transferring, attempting to transfer, voting, or attempting to vote any proxy, consent or authorization with respect to any voting rights in any institution described in subsection 8(e)(7)(A) of the FDI Act (12 U.S.C. § 1818(e)(7)(A));
   c. from violating any voting agreement previously approved by any Federal banking agency; or
   d. from voting for a director, or from serving or acting as an institution-affiliated party as defined in section 3(u) of the FDI Act (12 U.S.C. § 1813(u)), such as an officer, director, or employee in any institution described in section 8(e)(7)(A) of the FDI Act (12 U.S.C. § 1818(e)(7)(A)).
2. Any violation of this Order shall separately subject Benarroch to appropriate civil or criminal penalties or both under section 8 of the FDI Act (12 U.S.C. § 1818).
3. This Order, and each and every provision hereof, is and shall remain fully effective and enforceable until expressly stayed, modified, terminated or suspended in writing by the Board.

This Order shall become effective at the expiration of thirty days after service is made.

By Order of the Board of Governors this 12th day of March 2010.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

JENNIFER J. JOHNSON
Secretary of the Board

September 2010

Legal Developments: Second Quarter, 2010

ORDER ISSUED UNDER BANK HOLDING COMPANY ACT

Order Issued under Section 3 of the Bank Holding Company Act

City Holding Company
Charleston, West Virginia

Order Approving the Acquisition of Additional Shares of a Bank Holding Company and Determination on a Financial Holding Company Election

City Holding Company (''City Holding''), 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[1] to increase its ownership interest from 4.9 percent to 7.5 percent of the voting shares of First United Corporation (''First United'') and thereby increase its indirect interest in First United's subsidiary bank, First United Bank & Trust (''First Bank''), both of Oakland, Maryland. City Holding also has filed with the Board an election to become a financial holding company pursuant to sections 4(k) and (*l*) of the BHC Act and section 225.82 of Regulation Y.[2]

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (74 *Federal Register* 69,109 (2009)). The time for filing comments has expired, and the Board has considered the application and all comments received in light of the factors set forth in section 3 of the BHC Act.

City Holding, with total banking assets of approximately $2.6 billion, controls one depository institution, City National Bank of West Virginia (''City Bank''), Charleston, West Virginia, that operates in West Virginia, Ohio, and Kentucky. City Bank is the fifth largest insured depository institution in West Virginia, controlling deposits of approximately $1.9 billion, which represent 6.7 percent of the total amount of deposits of insured depository institutions in the state (''state deposits'').[3]

First United, with total assets of approximately $1.7 billion, is the 17th largest insured depository institution in Maryland. First Bank operates in Maryland and West Virginia and controls deposits of approximately $267 million in West Virginia. If City Holding were deemed to control First United on consummation of the proposal, City Holding would become the third largest banking organization in West Virginia, controlling approximately $2.2 billion in deposits, which would represent 7.7 percent of state deposits.

City Holding has stated that it does not propose to control or exercise a controlling influence over First United and that its indirect investment in First Bank also would be a noncontrolling investment. In this light, City Holding has agreed to abide by certain commitments on which the Board has previously relied 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 (''Passivity Commitments'').[4] For example, City Holding has committed not to exercise or attempt to exercise a controlling influence over the management or policies of First United or any of its subsidiaries; not to have or seek to have any employee or representative of City Holding or its affiliates serve as an officer, agent, or employee of First United or any of its subsidiaries; and not to seek or accept representation on the board of directors of First United or any of its subsidiaries. City Holding also has committed not to enter into any agreement with First United or any of its subsidiaries that substantially limits the discretion of First United's management over major policies or decisions.

Based on these considerations and all the other facts of record, the Board has concluded that City Holding would not acquire control of, or have the ability to exercise a controlling influence over, First United or First Bank through the proposed acquisition of the First United's voting shares. The Board notes that the BHC Act requires City Holding to file an application and receive the Board's approval before the company could directly or indirectly

1. 12 U.S.C. § 1842.
2. 12 U.S.C. §§ 1843(k) and (*l*); 12 CFR 225.82.
3. Asset data are as of June 30, 2009; statewide deposit and ranking data also are as of June 30, 2009, and reflect merger and acquisition activity through that date. In this context, insured depository institutions include commercial banks, savings banks, and savings associations.
4. The commitments made by City Holding are set forth in the appendix.

acquire additional shares of First United or attempt to exercise a controlling influence over First United or First Bank.[5]

Competitive Considerations

The Board has considered carefully the competitive effects of the proposal in light of all the facts of record. 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 an attempt to monopolize the business of banking in any relevant banking market. The BHC Act also prohibits the Board from approving a 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.[6]

City Bank and First Bank compete directly in two banking markets: the greater Washington, D.C. area banking market (''Washington banking market'') and the Martinsburg, West Virginia banking market (''Martinsburg banking market''). The Board has reviewed carefully the competitive effects of the proposal in these banking markets in light of all the facts of record. In particular, the Board has considered the number of competitors that would remain in the banking markets; the relative shares of total deposits in depository institutions in the market (''market deposits'') controlled by City Bank and First Bank;[7] the concentration level of market deposits and the increase in the level as measured by the Herfindahl–Hirschman Index (''HHI'') under the Department of Justice Merger Guidelines (''DOJ Guidelines'');[8] other characteristics of the market; and the Passivity Commitments that City Holding made to the Board with respect to First United and First Bank.

A. Banking Market within Established Guidelines

Consummation of the proposal would be consistent with Board precedent and within the thresholds in the DOJ Guidelines in the Washington banking market.[9] On consummation of the proposal, the market would remain moderately concentrated as measured by the HHI. The change in the HHI in the market would be consistent with Board precedent and the thresholds in the DOJ Guidelines, and a number of competitors would remain.[10]

B. Banking Market Warranting Special Scrutiny

The structural effects that consummation of the proposal would have on the Martinsburg banking market warrant a detailed review.[11] In this banking market, the concentration level on consummation of the proposal would exceed the threshold levels in the DOJ Guidelines. City Bank is the fourth largest depository institution in the market, controlling $113.98 million in deposits, which represents 11.1 percent of market deposits. First Bank is the third largest depository institution in the market, controlling $113.99 million in deposits, which also represents 11.1 percent of market deposits. If considered a combined organization on consummation of the proposal, City Bank and First Bank would be the second largest depository organization in the Martinsburg banking market, controlling $228 million in deposits, which would represent approximately 22.2 percent of market deposits. The proposal would exceed the DOJ Guidelines because the HHI for the Martinsburg banking market would increase 246 points to 2046. In this light, consummation of the proposal would raise competitive issues in the Martinsburg banking market for the combined organization.

After careful analysis of the record, however, the Board has concluded that no significant reduction in competition is likely to result from City Holding's proposed indirect investment in First Bank. Of particular significance in this case are the structure of the proposed investment and the Passivity Commitments that City Holding has provided to the Board, which are designed to limit the ability of City Holding to use its proposed investment to engage in any anticompetitive behavior. The structure of the Martinsburg banking market, the number of competitors in the market, and the market's record of recent entry also indicate that

5. *See e.g., Emigrant Bancorp, Inc.*, 82 *Federal Reserve Bulletin* 555 (1996); *First Community Bancshares, Inc.*, 77 *Federal Reserve Bulletin* 50 (1991).

6. 12 U.S.C. § 1842(c)(1).

7. Deposit and market share data are as of June 30, 2009, 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, 387 (1989); *National City Corporation*, 70 *Federal Reserve Bulletin* 743, 744 (1984). The Board regularly has included thrift institution deposits in the market share calculation on a 50 percent weighted basis. *See, e.g., First Hawaiian, Inc.*, 77 *Federal Reserve Bulletin* 52, 55 (1991).

8. Under the DOJ Guidelines, a market is considered unconcentrated if the post-merger HHI is less than 1000, moderately concentrated if the post-merger HHI is between 1000 and 1800, and highly concentrated if the post-merger HHI is more than 1800. The Department of Justice (''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 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 entities.

9. The Washington banking market is defined as the Washington, DC-MD-VA Rand McNally Area (RMA); the non-RMA portions of Calvert, Charles, Frederick, and St. Mary's counties in Maryland; the non-RMA portions of Fauquier and Loudoun counties in Virginia; the independent cities of Alexandria, Fairfax, Falls Church, Manassas, and Manassas Park in Virginia; and Jefferson County, West Virginia.

10. If City Holding were deemed to control First United, City Holding would be the 45th largest depository institution in the market, controlling deposits of $164 million, which would represent less than 1 percent of market deposits. The HHI would increase by less than 1 point to 1134.

11. The Martinsburg banking market is defined as Berkeley County, West Virginia, excluding the portion of that county included in the Hagerstown RMA.

the market concentrations, as measured by the HHI, overstate 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 and has recognized that a significant reduction in competition can result from the sharing of nonpublic financial information between two organizations that are not under common control. In each case, the Board analyzes the specific facts to determine whether the minority investment in a competitor would result in significant adverse competitive effects in a banking market.

The Board has concluded, after careful analysis of the entire record, that no significant reduction in competition will likely result from City Holding's proposed minority investment in First United. As noted, City Holding has committed not to exercise a controlling influence over First United or First Bank and not to seek or accept representation on the board of directors of First United or First Bank. City Holding also has committed not to acquire or seek to acquire nonpublic financial information from First United or First Bank. These commitments are designed to prevent anticompetitive behavior that otherwise might occur through either influencing the behavior of First United or First Bank or the coordination of City Holding's activities with those of First United or First Bank. In addition, there are no legal, contractual, or statutory provisions that would otherwise allow City Holding to have any access to financial information of First United or First Bank beyond the information already available to it as a shareholder with less than a 10 percent interest. These limitations restrict City Holding's access to confidential information that could enable it to engage in anticompetitive behavior in the Martinsburg banking market with respect to First Bank.

The Board also has considered additional facts indicating that the proposal is not likely to have a significantly adverse effect on competition in the Martinsburg banking market. In addition to City Bank and First Bank, ten other bank competitors, including two competitors with market shares of at least 20 percent each, provide additional sources of banking services to the market. The Board also notes that the market includes two community credit unions with broad membership criteria that include most of the residents in the market, offer a wide range of consumer banking products, and operate at least one street-level branch.[12] The market also appears relatively attractive for entry. There has been substantial recent entry into the Martinsburg banking market, with four banks entering the market within the last five years.

12. The Board previously has considered competition from certain active credit unions with those features as a mitigating factor. *See Passumpsic Bancorp*, 92 *Federal Reserve Bulletin* C175 (2006); *Capital City Group, Inc.*, 91 *Federal Reserve Bulletin* 418 (2005); *F.N.B. Corporation*, 90 *Federal Reserve Bulletin* 481 (2004); *Gateway Bank & Trust Co.*, 90 *Federal Reserve Bulletin* 547 (2004). If City Bank and First Bank were considered as a combined organization on consummation of the proposal, the HHI for the Martinsburg banking market would increase 236 points to 1966 if the deposits of the credit union are weighted at 50 percent.

C. Views of Other Agencies and Conclusion on Competitive Considerations

The DOJ also has 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. The appropriate banking agencies have been afforded an opportunity to comment and have not objected to the proposal.

Accordingly, in light of 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 resources in any relevant banking market and that competitive considerations are consistent with approval.

Financial, Managerial, and Supervisory Considerations

Section 3 of the BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and depository institutions involved in the proposal and certain other supervisory factors. The Board has considered these factors in light of all the facts of record, including confidential reports of examination, other supervisory information from the primary supervisors of the organizations involved in the proposal, publicly reported and other financial information, and information provided by City Holding.

In evaluating financial factors in expansion proposals by banking organizations, the Board reviews the financial condition of the organizations involved on both a parent-only and consolidated basis, as well as the financial condition of the subsidiary banks and significant nonbanking operations. The Board also evaluates the financial condition of the combined organization, including its capital position, asset quality, and earnings prospects, and the impact of the proposed funding of the transaction. In assessing financial factors, the Board consistently has considered capital adequacy to be especially important.

The Board has considered carefully the financial factors of the proposal. City Holding and City Bank are well capitalized and would remain so on consummation of the proposal. The proposed transaction would be funded from City Holding's existing cash reserves. Based on its review of the record, the Board finds that City Holding has sufficient financial resources to effect the proposal and that the financial resources of City Holding and its subsidiaries would not be adversely affected by the proposal.

The Board also has considered the managerial resources of City Holding, First United, and their subsidiary banks. The Board has reviewed the examination records of these institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered its supervisory experiences and those of other relevant bank supervisory agencies with the organizations and their records of compliance with applicable banking law, including anti-money-laundering laws.

Based on all the facts of record, the Board has concluded that considerations relating to the financial and managerial resources and future prospects of the organizations involved are consistent with approval, as are the other supervisory factors under the BHC Act.

Convenience and Needs and CRA Performance Considerations

In acting on a proposal under section 3 of the BHC Act, the Board must consider the effects of the proposal on the convenience and needs of the communities to be served and take into account the records of the relevant depository institutions under the Community Reinvestment Act (''CRA'').[13] The Board has carefully considered the convenience and needs factor and the CRA performance records of City Bank and First Bank in light of all the facts of record. As provided in the CRA, the Board evaluates the record of performance of an institution in light of examinations by the appropriate federal supervisors of the CRA performance records of the relevant institutions.[14] City Bank and First Bank received ''satisfactory'' ratings at their most recent examinations for CRA performance by the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation, as of November 2, 2009, and July 6, 2009, respectively. Based on a review of the entire record, the Board has concluded that considerations relating to convenience and needs considerations and the CRA performance records of City Bank and First Bank are consistent with approval of the proposal.

Financial Holding Company Election

As noted, City Holding has elected to become a financial holding company in connection with the proposal. City Holding has certified that City Bank is well capitalized and well managed and has provided all the information required under the Board's Regulation Y.[15] Based on all the facts of record, the Board has determined that City Holding's election is effective as of the date of this order.

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the application under section 3 of the BHC Act 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 and other applicable statutes. The Board's approval is specifically conditioned on compliance by City Holding with the conditions imposed in this order and the commitments made to the Board in connection with the application. For purposes of this action, the conditions and commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decision herein and, as such, may be enforced in proceedings under applicable law.

The proposed transaction may not be consummated before the 15th 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 the Federal Reserve Bank of Richmond, acting pursuant to delegated authority.

By order of the Board of Governors, effective June 9, 2010.

Voting for this action: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Duke, and Tarullo.

Robert deV. Frierson
Deputy Secretary of the Board

13. 12 U.S.C. § 2901 et seq.; 12 U.S.C. § 2903; 12 U.S.C. § 1842(c)(2).

14. The Interagency Questions and Answers Regarding Community Reinvestment provide that a CRA examination is an important and often controlling factor in the consideration of an institution's CRA record. *See* 75 *Federal Register* 11642 at 11665 (2009).

15. *See* 12 CFR 225.82(b).

Appendix

Passivity Commitments

City Holding Company (''City Holding''), Charleston, West Virginia, will not, without the prior approval of the Board of Governors of the Federal Reserve System (''Board'') or its staff, directly or indirectly:

1. Exercise or attempt to exercise a controlling influence over the management or policies of First United Corporation (''First United''), Oakland, Maryland, or any of its subsidiaries;
2. Have or seek to have a representative of City Holding serve on the board of directors of First United or any of its subsidiaries;
3. Have or seek to have any employee or representative of City Holding serve as an officer, agent, or employee of First United or any of its subsidiaries;
4. Take any action that would cause First United or any of its subsidiaries to become a subsidiary of City Holding;
5. Acquire or retain shares that would cause the combined interests of City Holding and its officers, directors, and affiliates to equal or exceed 25 percent of the outstanding voting shares of First United or any of its subsidiaries;[1]
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 First United or any of its subsidiaries;
7. Solicit or participate in soliciting proxies with respect to any matter presented to the shareholders of First United or any of its subsidiaries;
8. Attempt to influence the dividend policies; loan, credit, or investment decisions or policies; 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 First United or any of its subsidiaries;
9. Dispose or threaten to dispose (explicitly or implicitly)

1. City Holding is required to file an application and receive the Board's approval pursuant to section 3(a)(3) of the BHC Act before increasing its ownership interest in First United above 7.5 percent.

of shares of First United in any manner as a condition of or inducement to specific action or non-action by First United or any of its subsidiaries;

10. Enter into any other banking or nonbanking transactions with First United or any of its subsidiaries, except that City Holding may establish and maintain deposit accounts with First United, 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 First United; and
11. Acquire or seek to acquire any nonpublic financial information of First United or any of its subsidiaries, beyond the information already available to it as a shareholder of First United. City Holding also confirms that there are no legal, contractual, or statutory provisions that would allow it or its subsidiaries to have any access to financial information of First United or its subsidiaries beyond the information available to shareholders.

The terms used in these commitments have the same meanings as the terms set forth in the BHC Act and the Board's Regulation Y.

ORDER ISSUED UNDER BANK MERGER ACT

Banco Popular de Puerto Rico
Hato Rey, Puerto Rico

Order Approving the Merger of Banks and the Establishment of Branches

Banco Popular de Puerto Rico (''Banco Popular''),[1] Hato Rey, a state member bank, has requested the Board's approval under section 18(c) of the Federal Deposit Insurance Act[2] (''Bank Merger Act'') to acquire assets and assume liabilities of Westernbank Puerto Rico (''Westernbank''), Mayagüez, both of Puerto Rico. Banco Popular also proposes to establish and operate branches at the locations of the acquired branches of Westernbank.

The Federal Deposit Insurance Corporation (''FDIC'') has been appointed receiver of Westernbank and has scheduled the sale of certain assets and the transfer of certain liabilities, of Westernbank for April 30, 2010. The FDIC has recommended immediate action by the Board to prevent the probable failure of Westernbank. On the basis of the information before the Board, the Board finds that it must act immediately pursuant to the Bank Merger Act[3] to safeguard the depositors of Westernbank. Accordingly, public notice of the application and opportunity for comment is not required by the Bank Merger Act.

1. Banco Popular is a subsidiary of Popular, Inc., San Juan, Puerto Rico.
2. 12 U.S.C. § 1828(c).
3. 12 U.S.C. § 1828(c)(3).

Banco Popular, with total assets of approximately $23.3 billion, operates in Puerto Rico, the U.S. Virgin Islands, and New York.[4] Banco Popular is the largest insured depository institution in Puerto Rico, controlling deposits of approximately $17 billion, which represent 27.4 percent of the total amount of deposits of insured depository institutions in the Commonwealth (''total deposits'').

Westernbank operates only in Puerto Rico where it is the third largest insured depository institution, controlling deposits of approximately $10.2 billion. On consummation of the proposal, Banco Popular would remain the largest insured depository institution in Puerto Rico, controlling deposits of approximately $19.5 billion, which represent 31.4 percent of total deposits.[5]

Competitive Considerations

The Board has considered carefully the competitive effects of the proposal in light of the facts of record. The Bank Merger Act prohibits the Board from approving a proposal that would result in a monopoly or would be in furtherance of an attempt to monopolize the business of banking in any relevant banking market. The Bank Merger Act also prohibits the Board from approving a 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 transaction in meeting the convenience and needs of the community served.[6]

Banco Popular and Westernbank directly compete in all four banking markets in Puerto Rico. 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. In particular, the Board has considered the financial condition of Westernbank and the fact that the Office of the Commissioner of Financial Institutions of the Commonwealth of Puerto Rico (''Puerto Rico OCFI'') has placed the bank into FDIC receivership. In addition, the FDIC, as receiver for Westernbank, has selected Banco Popular's bid for Westernbank in accordance with the least-cost resolution requirements in the Federal Deposit Insurance Act[7] and eliminated more costly proposals. The Board also has considered the resulting loss of Westernbank as an independent competitor in the banking markets if this transaction is

4. Asset data are as of December 31, 2009, and deposit and ranking data are as of June 30, 2009. For purposes of this order, insured depository institutions include commercial banks. No savings associations operate in Puerto Rico.
5. In the proposed transaction, Banco Popular would assume only $2.5 billion of Westernbank's deposits.
6. 12 U.S.C. § 1828(c)(5).
7. The least-cost procedures require the FDIC to choose the resolution method in which the total amount of the FDIC's expenditures and obligations incurred (including any immediate or long-term obligation and any direct or contingent liability) is the least costly to the deposit insurance fund of all possible methods. *See* 12 U.S.C. §§ 1821, 1822, and 1823(c)–(k).

not consummated, as well as various measures of competition and market concentration, and other characteristics of the markets.

Under the proposal, Banco Popular would purchase assets and assume liabilities of Westernbank and thereby merge Westernbank's businesses into a viable ongoing concern with demonstrated capital strength and management capability. Banco Popular's proposal would continue the availability of credit opportunities and banking services for the customers and communities that Westernbank served and avoid serious economic disruption in Puerto Rico. The FDIC actively solicited bids for Westernbank and selected Banco Popular's proposal under the procedures specified by Congress in the Federal Deposit Insurance Act for resolving failed banks.[8] The FDIC considered this proposal in light of competing proposals submitted by other bidders and determined that Banco Popular's bid represented the lowest cost to the Deposit Insurance Fund. On this basis, the Banco Popular proposal is the only means before the Board of achieving the public benefits discussed above.

Under these circumstances, and after careful consideration of all the facts of record, the Board concludes that the anticompetitive effects of this proposal in the relevant markets are clearly outweighed in the public interest by the probable effect of the Banco Popular proposal in meeting the convenience and needs of the communities to be served in Puerto Rico.

Financial and Managerial Resources and Future Prospects

The Bank Merger Act requires the Board to consider the financial and managerial resources and future prospects of the companies and depository institutions involved in the proposal and certain other supervisory factors. The Board has considered these factors in light of all the facts of record, including confidential supervisory and examination information from the Puerto Rico OCFI and the U.S. banking supervisors of the institutions involved, and publicly reported and other financial information, including substantial information provided by Banco Popular.

In evaluating financial factors in expansion proposals by banking organizations, the Board reviews the financial condition of the organizations involved on both a parent-only and consolidated basis, as well as the financial condition of the subsidiary depository institutions and significant nonbanking operations. In this evaluation, the Board considers a variety of information, including capital adequacy, asset quality, and earnings performance. In assessing financial resources, the Board also evaluates the financial condition of the combined organization at consummation, including its capital position, asset quality, earnings prospects, and the impact of the proposed funding of the transaction.

The Board has carefully considered the financial resources of the organizations involved in the proposal. Banco Popular is well capitalized and would remain so on consummation of the proposal. In addition, the parent holding company of Banco Popular, Popular Inc., recently raised in a public offering approximately $1.1 billion in additional capital, of which a sufficient portion will be downstreamed to Banco Popular to effect this transaction. Based on its review of the record in this case, the Board finds that Banco Popular has sufficient financial resources to effect the proposal. As noted, the proposed transaction is structured as a purchase of assets and assumption of liabilities from the FDIC as receiver, and the transaction will be funded by cash.

The Board also has considered the managerial resources of Banco Popular. The Board has reviewed the examination records of Banco Popular, including assessments of its management, risk-management systems, and operations. In addition, the Board has considered its supervisory experiences and those of other relevant banking supervisory agencies, including the FDIC, with the organizations and their records of compliance with applicable banking law and anti-money-laundering laws. The Board also has considered Banco Popular's plans for implementing the proposal, including its plans for managing the integration of the acquired assets and operations into the bank.

Based on all the facts of record, the Board concludes that considerations relating to the financial and managerial resources and future prospects of Banco Popular are consistent with approval under the Bank Merger Act, as are the other statutory factors.

Convenience and Needs Considerations

In acting on a proposal under the Bank Merger Act, the Board is required to consider the effects of the proposal on the convenience and needs of the communities to be served and take into account the records of the relevant insured depository institutions under the Community Reinvestment Act (''CRA'').[9] Banco Popular received an ''outstanding'' rating at its most recent CRA performance evaluation by the Federal Reserve Bank of New York, as of September 15, 2008. Westernbank received a ''satisfactory'' rating at its most recent CRA performance evaluations by the FDIC, as of July 1, 2007. After consummation of the proposal, Banco Popular plans to implement its CRA policies at the branches and acquired consumer lending operations of Westernbank.

As noted, the Board believes that the proposal will result in substantial benefits to the convenience and needs of the communities to be served by maintaining the availability of credit and deposit services to customers of Westernbank. Banco Popular has represented that consummation of the proposal would allow it to provide a broader range of financial products and services to the customers of Westernbank. Based on all the facts of record, the Board concludes that considerations relating to the convenience and needs of

8. *See* 12 U.S.C. §§ 1821, 1822, and 1823(c)–(k).

9. 12 U.S.C. §§ 2901 et seq.

the communities to be served and the CRA performance records of the relevant depository institutions are consistent with approval.

Conclusion

Based on the foregoing and all 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 Bank Merger Act. The Board's approval is specifically conditioned on compliance by Banco Popular with the commitments made to the Board in connection with the application and the conditions imposed 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 herein, and, as such, may be enforced in proceedings under applicable law.

The transaction may be consummated immediately but in no event 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.

By order of the Board of Governors, effective April 30, 2010.

Voting for this action: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Duke, and Tarullo.

Robert deV. Frierson
Deputy Secretary of the Board

ORDER ISSUED UNDER INTERNATIONAL BANKING ACT

National Agricultural Cooperative Federation Seoul, Republic of Korea

Order Approving Establishment of a Representative Office

National Agricultural Cooperative Federation (''NACF''), Seoul, Korea, a foreign bank within the meaning of the International Banking Act (''IBA''), has applied under section 10(a) of the IBA[1] to establish a representative office 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 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 8, 2010). The time for filing comments has expired, and all comments received have been considered.

NACF, with total consolidated assets of approximately $251 billion, and banking business assets of approximately $168 billion, is a special-purpose organization created by the Korean government that acts as an umbrella organization for Korean agricultural cooperatives.[2] NACF conducts a variety of financial and nonfinancial activities, including banking, insurance, agricultural marketing, agricultural supply, and education and support services. NACF conducts banking activities through an unincorporated banking unit, which would rank as one of the largest banks in Korea, by asset and deposit size. The proposed representative office would be NACF's only direct office outside Korea.[3] NACF offers a broad range of financial services, including the provision of specialized agricultural and general commercial credit and banking services and the sale of life insurance. NACF is entirely owned by its member agricultural cooperatives, which include 1,102 regional cooperatives and 82 commodity cooperatives, representing nearly all of the farmers in Korea. No shareholder, directly or indirectly, owns 5 percent or more of the voting shares of NACF.

The proposed representative office would act as liaison between NACF and its U.S. customers and would engage in other representational activities, including soliciting purchasers of loans, parties to contract with NACF for the servicing of NACF loans, and other banking business (except for deposits or deposit-type liabilities); and conducting research.[4] The proposed office would also solicit loans in principal amounts of $250,000 or more and, in connection with those loans, would assemble credit information, make property inspections and appraisals of property, secure title information, prepare loan applications, and make recommendations.

In acting on an application under the IBA and Regulation K by a foreign bank to establish a representative office, the Board must consider whether (1) the foreign bank has furnished to the Board the information it needs to assess the application adequately; (2) the foreign bank and any foreign bank parent engage directly in the business of banking outside of the United States; and (3) the foreign bank and any foreign bank parent are subject to comprehensive supervision on a consolidated basis by their home-country

1. 12 U.S.C. § 3107(a).

2. Asset and ranking data are as of March 31, 2010.

3. Through a Korean nonbanking subsidiary, NACF has a U.S. subsidiary that engages primarily in agricultural market research, marketing Korean agricultural products, and other nonbanking activities. NACF has similar establishments in Tokyo and Beijing.

4. A representative office may engage in representational and administrative functions in connection with the banking activities of the foreign bank, including soliciting new business for the foreign bank, conducting research, acting as a liaison between the foreign bank's head office and customers in the United States, performing preliminary and servicing steps in connection with lending, and performing back-office functions. A representative office may not contract for any deposit or deposit-like liability, lend money, or engage in any other banking activity (12 CFR 211.24(d)(1)).

supervisor.[5] The Board also considers additional standards set forth in the IBA and Regulation K.[6] The Board will consider that the supervision standard has been met if it determines that the applicant bank is subject to a supervisory framework that is consistent with the activities of the proposed representative office, taking into account the nature of such activities. This is a lesser standard than the comprehensive, consolidated supervision standard applicable to proposals to establish branch or agency offices of a foreign bank. The Board considers the lesser standard sufficient for approval of representative office applications because representative offices may not engage in banking activities.[7] This application has been considered under the lesser standard.

As noted above, NACF engages directly in the business of banking outside the United States.[8] NACF has provided the Board with the information necessary to assess the application through submissions that address the relevant issues. At the proposed representative office, NACF may engage only in activities permissible for a representative office, which include the proposed customer-liaison, soliciting, marketing, and administrative activities noted above.[9]

With respect to supervision by home-country authorities, the Board has considered that the unincorporated banking unit of NACF is supervised by Korea's Financial Supervisory Service (''FSS''). The Board previously has determined that, in connection with applications involving other Korean banks, those banks were subject to comprehensive supervision on a consolidated basis by the FSS.[10] The banking unit of NACF is supervised on substantially the same terms and conditions as those other financial institutions, with additional oversight of the banking unit and of NACF as a whole by other governmental bodies related to NACF's status as a specialized agricultural cooperative.[11] The FSS does not have supervisory responsibility for NACF as a whole. However, the FSS has authority to limit transactions by NACF's banking unit with other NACF business units and to obtain information from those units.[12]

Based on all the facts of record, it has been determined that NACF is subject to a supervisory framework that is consistent with the activities of the proposed representative office, taking into account the nature of such activities and the supervision of NACF's banking unit by FSS.

The additional standards set forth in section 7 of the IBA and Regulation K also have been taken into account.[13] The FSS has no objection to the establishment of the proposed representative office.

With respect to the financial and managerial resources of NACF, taking into consideration NACF's record of operations in its home country, its overall financial resources, and its standing with its home-country supervisor, financial and managerial factors are consistent with approval of the proposed representative office. NACF appears to have the experience and capacity to support the proposed representative office and has established controls and procedures for the proposed representative office to ensure compliance with U.S. law, as well as controls and procedures for its worldwide operations generally.

Korea became a member of the Financial Action Task Force (''FATF'') on October 14, 2009, and subscribes to the FATF's recommendations regarding measures to combat money laundering and international terrorism. In accordance with those recommendations, Korea has enacted laws and created legislative and regulatory standards to deter money laundering, terrorist financing, and other illicit

5. 12 U.S.C. § 3107(a)(2); 12 CFR 211.24(d)(2). In assessing the supervision standard, the Board considers, among other indicia of comprehensive, consolidated supervision, 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 the 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; and (v) evaluate prudential standards, such as capital adequacy and risk asset exposure, on a worldwide basis. No single factor is essential, and other elements may inform the Board's determination.

6. *See* 12 U.S.C. § 3105(d)(3)–(4); 12 CFR 211.24(c)(2). These standards include (1) whether the bank's home-country supervisor has consented to the establishment of the office; the financial and managerial resources of the bank; (2) whether the bank has procedures to combat money laundering, whether there is a legal regime in place in the home country to address money laundering, and whether the home country is participating in multilateral efforts to combat money laundering; (3) whether the appropriate supervisors in the home country may share information on the bank's operations with the Board; and (4) whether the bank and its U.S. affiliates are in compliance with U.S. law; the needs of the community; and the bank's record of operation. *See also Standard Chartered Bank*, 95 *Federal Reserve Bulletin* B98 (2009).

7. 12 CFR 211.24(d)(2).

8. Although not incorporated as a bank, NACF meets the definition of ''foreign bank'' in the IBA. Foreign bank is defined as ''any company organized under the laws of a foreign country ... which engages in the business of banking ...'' (12 U.S.C. § 3101(7)).

9. *See supra* note 4.

10. The FSS is the executive body of the Financial Services Commission (''FSC,'' formerly the Financial Supervisory Commission), which is responsible for promulgating supervisory regulations, making policy decisions about supervision, and imposing sanctions on Korean financial institutions. The FSS is responsible for the supervision of Korean financial institutions, including overseas offices, pursuant to regulations promulgated by the FSC. *See Shinhan Financial Group Co., Ltd.*, 90 *Federal Reserve Bulletin* 85 (2004); *Woori Finance Holdings Co., Ltd.*, 89 *Federal Reserve Bulletin* 436 (2003).

11. NACF is supervised by the Ministry for Food, Agriculture, Forestry and Fisheries, which inspects each NACF unit, other than the banking unit, over the course of a three-year schedule. Additionally, NACF is subject to periodic on-site examination of all its businesses by the Korean National Assembly's Committee of Agriculture, Forestry and Ocean in connection with its oversight of the Korean agricultural industry.

12. The Korean national legislature is considering a proposal to establish NACF's banking unit as a separate legal entity that would remain a subsidiary of NACF (''separation plan''). Under the separation plan, NACF's banking subsidiary would be subject, as a separate legal entity, to consolidated supervision by the FSS on substantially the same terms and conditions as other banks in Korea that the Board has determined to be subject to comprehensive supervision. NACF expects the separation plan to be implemented by the end of 2011.

13. *See* 12 U.S.C. § 3105(d)(3)–(4); 12 CFR 211.24(c)(2).

activities. Money laundering is a criminal offense in Korea, and financial services businesses are required to establish internal policies, procedures, and systems for the detection and prevention of money laundering throughout their worldwide operations. NACF has policies and procedures to comply with those laws and regulations, and these policies and procedures are monitored by governmental entities responsible for anti-money-laundering compliance.

With respect to access to information about NACF's operations, the restrictions on disclosure in relevant jurisdictions in which NACF operates have been reviewed and relevant government authorities have been communicated with regarding access to information. NACF has committed to make available to the Board such information on the operations of NACF and any of its affiliates that the Board deems necessary to determine and enforce compliance with the IBA, the Bank Holding Company Act of 1956, as amended, and other applicable federal law. To the extent that providing such information to the Board may be prohibited by law or otherwise, NACF has committed to cooperate with the Board to obtain any necessary consents or waivers that might be required from third parties for the disclosure of such information. In addition, subject to certain conditions, the FSS may share information on NACF'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 NACF has provided adequate assurances of access to any necessary information that the Board may request.

Based on the foregoing and all the facts of record, NACF's application to establish the proposed representative office is hereby 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.[14] Should any restrictions on access to information on the operations or activities of NACF and its affiliates subsequently interfere with the Board's ability to obtain information to determine and enforce compliance by NACF or its affiliates with applicable federal statutes, the Board may require termination of any of NACF's direct or indirect activities in the United States. Approval of this application also is specifically conditioned on compliance by NACF with the conditions imposed in this order and the commitments made to the Board in connection with this application.[15] For purposes of this action, these commitments and conditions are deemed to be conditions imposed in writing by the Board in connection with this decision and, as such, may be enforced in proceedings under applicable law.

14. 12 CFR 265.7(d)(12).

15. The Board's authority to approve the establishment of the proposed representative office parallels the continuing authority of the state of New York to license offices of a foreign bank. The Board's approval of this application does not supplant the authority of the state of New York or its agent, the New York State Banking Department, to license the proposed office of NACF in accordance with any terms or conditions that it may impose.

By order, approved pursuant to authority delegated by the Board, effective June 29, 2010.

Robert deV. Frierson
Deputy Secretary of the Board

FINAL ENFORCEMENT DECISION ISSUED BY THE BOARD

In the Matter of

Antonio Garcia-Adanez,
A Former Institution-Affiliated Party of

Standard Chartered Bank International (Americas) Limited,
An Edge corporation subsidiary of

Standard Chartered Bank,
London, United Kingdom

Docket No. 10-057-E-I

Order of Prohibition Issued upon Consent Pursuant to Section 8(e) of the Federal Deposit Insurance Act, as Amended

WHEREAS, pursuant to sections 8(b)(3), 8(e) and 8(i)(3) of the Federal Deposit Insurance Act, as amended (the ''FDI Act''), 12 U.S.C. §§1818(e) and (i)(3), the Board of Governors of the Federal Reserve System (the ''Board of Governors'') issues this Order of Prohibition (the ''Order'') upon the consent of Antonio Garcia-Adanez (''Garcia''), a former employee and institution-affiliated party, as defined in section 3(u) of the FDI Act, 12 U.S.C. §1813(u), of Standard Chartered Bank International (Americas) Ltd. (''SCBI''), at all relevant times an Edge corporation organized under Section 25A of the Federal Reserve Act (12 U.S.C. §611 et seq.);

WHEREAS, Garcia, while employed as a private banking relationship manager at SCBI in Miami, Florida, allegedly engaged in violations of law, unsafe and unsound banking practices, and breaches of fiduciary duty that have caused substantial losses to SCBI, including, *inter alia*, manipulating the account statements of SCBI clients to misrepresent client investments, obligations and authorizations.

WHEREAS, by affixing his signature hereunder, Garcia has consented to the issuance of this Order by the Board of Governors and has agreed to comply with each and every provision of this Order, and has waived any and all rights he might have pursuant to 12 U.S.C. §1818, 12 CFR Part 263, or otherwise (a) to the issuance of a notice of intent to prohibit on any matter implied or set forth in this Order; (b)

to a hearing for the purpose of taking evidence with respect to any matter implied or set forth in this Order; (c) to obtain judicial review of this Order or any provision hereof; and (d) to challenge or contest in any manner the basis, issuance, terms, validity, effectiveness, or enforceability of this Order or any provision hereof.

NOW THEREFORE, prior to the taking of any testimony or adjudication of or finding on any issue of fact or law implied or set forth herein, and without this Order constituting an admission by Garcia of any allegation made or implied by the Board of Governors in connection with this proceeding, and solely for the purpose of settlement of this proceeding without protracted or extended hearings or testimony:

IT IS HEREBY ORDERED, pursuant to sections 8(b)(3), 8(e) and (i)(3) of the FDI Act, 12 U.S.C. §§ 1818(b)(3), (e) and (i)(3), that:

1. Garcia, without the prior written approval of the Board of Governors and, where necessary pursuant to section 8(e)(7)(B) of the FDI Act, 12 U.S.C. § 1818(e)(7)(B), another federal financial institutions regulatory agency, is hereby and henceforth prohibited from:
   a. participating in any manner in the conduct of the affairs of any institution or agency specified in section 8(e)(7)(A) of the FDI Act, 12 U.S.C. § 1818(e)(7)(A), including, but not limited to, any insured depository institution, any holding company of an insured depository institution, any subsidiary of such holding company, any foreign bank, or any Edge corporation organized under Section 25A of the Federal Reserve Act (12 U.S.C. § 611 et seq.);
   b. soliciting, procuring, transferring, attempting to transfer, voting or attempting to vote any proxy, consent, or authorization with respect to any voting rights in any institution described in section 8(e)(7)(A) of the FDI Act, 12 U.S.C. § 1818(e)(7)(A);
   c. violating any voting agreement previously approved by any federal banking agency; or
   d. voting for a director, or serving or acting as an institution-affiliated party, as defined in section 3(u) of the FDI Act, 12 U.S.C. § 1813(u), such as an officer, director or employee, in any institution described in section 8(e)(7)(A) of the FDI Act.
2. All communications regarding this Order shall be addressed to:
   a. Richard M. Ashton, Esq.
Deputy General Counsel
Board of Governors of the Federal Reserve System
20th & C Streets NW
Washington, DC 20551
   b. Mr. Antonio Garcia-Adanez
3162 Commodore Plaza
Miami, Florida 33133
With a copy to:
Martin B. Goldberg, Esq.
Lash & Goldberg LLP
100 Southeast Second Street
Suite 1200
Miami, Florida 33131
3. Any violation of this Order shall separately subject Garcia to appropriate civil or criminal penalties, or both, under sections 8(i) and (j) of the FDI Act, 12 U.S.C §§ 1818(i) and (j).
4. The provisions of this Order shall not bar, estop, or otherwise prevent the Board of Governors, or any other federal or state agency or department, from taking any other action affecting Garcia; provided, however, that the Board of Governors shall not take any further action against Garcia relating to the matters addressed by this Order based upon facts presently known by the Board of Governors.
5. Each provision of this Order shall remain fully effective and enforceable until expressly stayed, modified, terminated, or suspended in writing by the Board of Governors.

By order of the Board of Governors of the Federal Reserve System, effective this 13th day of May, 2010.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

JENNIFER J. JOHNSON
Secretary of the Board

(signed)
Antonio Garcia-Adanez

Legal Developments: Third Quarter, 2010

ORDERS ISSUED UNDER BANK HOLDING COMPANY ACT

Orders Issued under Section 3 of the Bank Holding Company Act

China Investment Corporation Beijing, People's Republic of China

Order Approving Acquisition of an Interest in a Bank Holding Company

China Investment Corporation ("CIC"), Beijing, People's Republic of China, has requested the Board's approval under section 3 of the Bank Holding Company Act of 1956, as amended ("BHC Act"),[1] to acquire indirectly up to 10 percent of the voting shares of Morgan Stanley, New York, New York.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (75 *Federal Register* 45628 (August 3, 2010)). 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.

CIC is a sovereign wealth fund organized by the Chinese government for the purpose of investing its foreign exchange reserves. CIC controls Central SAFE Investments Limited ("Huijin"), also of Beijing, a Chinese government-owned investment company organized to invest in Chinese financial institutions. Huijin owns controlling interests in three Chinese banks that operate banking offices in the United States: Bank of China, China Construction Bank, and Industrial and Commercial Bank of China, all also of Beijing.[2] Under the International Banking Act, any foreign bank that operates a branch, agency, or commercial lending company in the United States, and any company that controls the foreign bank, is subject to the BHC Act as if the foreign bank or company were a bank holding company.[3] As a result, CIC and Huijin are subject to the BHC Act as if they were bank holding companies[4] and are required to obtain prior Board approval to make a direct or indirect investment in 5 percent or more of the voting shares of a bank holding company or U.S. bank.[5]

In December 2007, CIC, primarily through a wholly owned nonbank subsidiary, invested in units consisting of trust preferred securities of Morgan Stanley and a stock purchase agreement to acquire voting common stock of Morgan Stanley by August 2010, subject to certain conditions.[6] In addition, CIC currently holds, through other subsidiaries, 2.49 percent of the voting common stock of Morgan Stanley. On consummation of the proposal, CIC would own and control up to 10 percent of Morgan Stanley's voting common stock. At the time of its initial investment in Morgan Stanley, CIC did not yet own the Chinese banks with U.S. branches and, therefore, was not subject to the BHC Act. In addition, Morgan Stanley, which became a bank holding company in September 2008, was not a bank holding company at the time it entered into the stock purchase agreement with CIC. Therefore, the transaction in 2007 between CIC and Morgan Stanley did not require review or approval by the Board. Because Morgan Stanley is now a bank holding company and CIC is now subject to the BHC Act as if it were a bank holding company as a result of its acquisition of Huijin, CIC must receive prior Board approval under section 3(a)(3) of the

1. 12 U.S.C. § 1842.
2. Bank of China operates two grandfathered insured federal branches in New York City and a limited federal branch in Los Angeles. Bank of China, in turn, controls a wholly owned subsidiary bank, Nanyang Commercial Bank, Limited, Hong Kong SAR, People's Republic of China, that operates a federal branch in San Francisco. China Construction Bank operates a state branch and a representative office, and Industrial and Commercial Bank of China operates a state branch, all in New York City.
3. 12 U.S.C. § 3106.
4. The Board previously provided certain exemptions to CIC and Huijin under section 4(c)(9) of the BHC Act, which authorizes the Board to grant to foreign companies exemptions from the nonbanking restrictions of the BHC Act where the exemptions would not be substantially at variance with the purposes of the act and would be in the public interest. *See* 12 U.S.C. § 1843(c)(9). The exemptions provided to CIC and Huijin do not extend to Bank of China, China Construction Bank, Industrial and Commercial Bank of China, or any other Chinese banking subsidiary of CIC or Huijin that operates a branch or agency in the United States. *See* Board letter dated August 5, 2008, to H. Rodgin Cohen.
5. 12 U.S.C. § 1842(a)(3).
6. The agreement provided that the trust preferred securities would either be remarketed in order to raise the funds necessary for CIC to purchase Morgan Stanley's voting common stock or directly redeemed in exchange for common stock of Morgan Stanley. The securities were converted directly into voting common stock of Morgan Stanley on August 17, 2010, and the portion of such shares that would have caused CIC to own more than 4.99 percent of Morgan Stanley's voting shares were transferred into a custody account. The shares in the custody account will be released on Board approval of this application and the expiration of the 15-day waiting period.

BHC Act to own or control 5 percent or more of the voting shares of Morgan Stanley.[7]

Morgan Stanley, with total consolidated assets of approximately $626 billion, engages in commercial and investment banking, securities underwriting and dealing, asset management, trading, and other activities both in the United States and abroad. Morgan Stanley controls Morgan Stanley Bank, National Association (''Morgan Bank''), Salt Lake City, Utah, which operates one branch in the state, with total consolidated assets of approximately $66.2 billion and deposits of approximately $54.1 billion. In addition, Morgan Stanley controls Morgan Stanley Private Bank, National Association (''MSPB''), Purchase, New York, with total consolidated assets of $6.6 billion and deposits of $5.8 billion.[8]

Noncontrolling Investment

CIC has stated that it does not propose to control or exercise a controlling influence over Morgan Stanley and that its indirect investment will be a passive investment.[9] CIC has agreed to abide by certain commitments substantially similar to those on which the Board has previously relied in determining that an investing company would not be able to exercise a controlling influence over another bank holding company or bank for purposes of the BHC Act (''Passivity Commitments''). For example, CIC has committed not to exercise or attempt to exercise a controlling influence over the management or policies of Morgan Stanley; not to seek or accept more than one representative on the board of directors of Morgan Stanley; and not to have any other director, officer, employee, or agent interlocks with Morgan Stanley. The Passivity Commitments also include certain restrictions on the business relationships between CIC and Morgan Stanley.

Based on these considerations and all the other facts of record, the Board has concluded that CIC would not acquire control of, or have the ability to exercise a controlling influence over, Morgan Stanley or any of its subsidiaries through the conversion of the trust preferred securities held by CIC in Morgan Stanley into voting common stock of Morgan Stanley. The Board notes that the BHC Act requires CIC to receive the Board's approval before it directly or indirectly acquires additional shares of Morgan Stanley or attempts to exercise a controlling influence over Morgan Stanley or any of its subsidiaries.[10]

Competitive and Convenience and Needs Considerations

The Board has considered the competitive effects of the proposal in light of all the facts of the record. 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 proposal that would substantially lessen competition in any relevant banking market, unless 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.[11]

Several of the Chinese banks indirectly owned by CIC maintain branches that compete directly with a subsidiary bank of Morgan Stanley in the Metro New York banking market.[12] The Board has reviewed carefully the competitive effects of the proposal in the Metro New York banking market in light of all the facts of record. In particular, the Board has considered the number of competitors that remain in the banking market, the relative shares of total deposits in depository institutions in the market (''market deposits'') controlled by relevant institutions,[13] and the concentration level of market deposits and the increase in the level as measured by the Herfindahl–Hirschman Index

7. 12 U.S.C. § 1842(a)(3).

8. In addition, Morgan Stanley holds a noncontrolling 9.9 percent interest in a bank holding company, Chinatrust Financial Holding Company, Ltd. (''Chinatrust''), Taipei, Taiwan, and a national bank, Herald National Bank (''Herald''), New York, New York. *See Morgan Stanley*, 95 *Federal Reserve Bulletin* B86 (2009), and *Morgan Stanley*, 95 *Federal Reserve Bulletin* B93 (2009).

9. Although 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, 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 percent and 25 percent of the voting shares of banks. *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. *See, e.g., Mitsubishi UFG Financial Group, Inc.*, 95 *Federal Reserve Bulletin* B34 (2009) (acquisition of up to 24.9 percent of the voting shares of a bank holding company); *Brookline Bancorp, MHC*, 86 *Federal Reserve Bulletin* 52 (2000) (acquisition of up to 9.9 percent of the voting shares of a bank holding company); *Mansura Bancshares, Inc.*, 79 *Federal Reserve Bulletin* 37 (1993) (acquisition of 9.7 percent of the voting shares of a bank holding company).

10. 12 U.S.C. § 1842. *See, e.g., Emigrant Bancorp, Inc.*, 82 *Federal Reserve Bulletin* 555 (1996).

11. 12 U.S.C. § 1842(c)(1).

12. The Metro New York banking market includes: Bronx, Dutchess, Kings, Nassau, New York, Orange, Putnam, Queens, Richmond, Rockland, Suffolk, Sullivan, Ulster, and Westchester counties in New York; Bergen, Essex, Hudson, Hunterdon, Mercer, Middlesex, Monmouth, Morris, Ocean, Passaic, Somerset, Sussex, Union, and Warren counties and the northern portions of Mercer County in New Jersey; Monroe and Pike counties in Pennsylvania; and Fairfield County and portions of Litchfield and New Haven counties in Connecticut.

13. Call report, deposit, and market share data are based on data reported by insured depository institutions in the summary of deposits data as of June 30, 2009. The data are also 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, Inc.*, 75 *Federal Reserve Bulletin* 386 (1989); *National City Corporation*, 70 *Federal Reserve Bulletin* 743 (1984). Thus, the Board regularly has included thrift institution deposits in the market share calculation on a 50 percent weighted basis. *See, e.g., First Hawaiian, Inc.*, 77 *Federal Reserve Bulletin* 52 (1991).

(''HHI'') under the Department of Justice Bank Merger Competitive Review guidelines (''DOJ Bank Merger Guidelines'').[14]

Consummation of the acquisition is consistent with Board precedent and within the thresholds in the DOJ Bank Merger Guidelines in the Metro New York banking market. On consummation, the banking market would remain moderately concentrated, and numerous competitors would remain in the market.[15]

The DOJ also has reviewed the matter and has advised the Board that it does not believe that CIC's ownership interest in Morgan Stanley is likely to have a significant adverse effect on competition in any relevant banking market. The appropriate banking agencies have been afforded an opportunity to comment and have not objected to the application.

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 factors are consistent with approval of the proposal.

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 (''CRA''),[16] are consistent with approval of the application.[17] Morgan Bank received an ''outstanding'' rating at its most recent CRA performance evaluation by the FDIC, as of January 30, 2006.[18]

Financial, Managerial, and Other Supervisory Considerations

Section 3 of the BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and depository institutions 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 confidential supervisory and examination information regarding Morgan Stanley and its depository institution subsidiaries, publicly reported and other financial information, and information provided by CIC. With respect to the financial and managerial resources and future prospects of the companies and depository institutions involved in the proposal, Morgan Stanley's subsidiary banks currently are well capitalized and would remain so on consummation of this proposal. In addition, the Board has considered the financial, managerial, and future prospects of CIC in light of the fact that CIC is a government-owned investment company organized to invest the foreign exchange reserves of the government.

Based on all the facts of record, the Board has concluded that considerations relating to the financial and managerial resources and future prospects of the organizations involved in the proposal are consistent with approval, as are the other supervisory factors.[19]

Supervision or Regulation on a Consolidated Basis

In evaluating this application, the Board considered whether CIC is subject to comprehensive supervision or regulation on a consolidated basis by appropriate authorities in its home country. The system of comprehensive supervision or regulation may vary, depending on the nature of the acquiring company and the proposed investment. The Board believes that CIC may be found to be subject to an appropriate type and level of comprehensive regulation on a consolidated basis, given its unique nature and structure. CIC is an entity that is wholly owned by the government of China, was established to carry out the function of investing foreign exchange reserves, and is managed by officials who are selected by and report directly to the State Council of the People's Republic of China (''State Council''), which is the highest executive body in the Chinese govern-

14. Under the DOJ Bank Merger Guidelines, a market is considered unconcentrated if the post-merger HHI is under 1000, moderately concentrated if the post-merger HHI is between 1000 and 1800, and highly concentrated if the post-merger HHI exceeds 1800. The Department of Justice (''DOJ'') has informed the Board that a bank merger or acquisition generally would 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 more than 200 points. Although the DOJ and the Federal Trade Commission recently issued revised Horizontal Merger Guidelines, the DOJ has confirmed that the DOJ Bank Merger Guidelines, which were issued in 1995, were not changed. Press Release, Department of Justice (August 19, 2010), available at www.justice.gov/opa/pr/2010/August/10-at-938.html.

15. The HHI would remain unchanged at 1315 in the Metro New York banking market, which has 272 insured depository institution competitors. The combined deposits of the relevant institutions in the Metro New York banking market represent less than 1 percent of market deposits.

16. 12 U.S.C. § 2901 et seq.; 12 U.S.C. § 2903; 12 U.S.C. § 1842(c)(2).

17. Bank of China has two grandfathered federal branches whose deposits are insured by the Federal Deposit Insurance Corporation (''FDIC''). The branches received a ''satisfactory'' rating at their most recent CRA performance evaluation by the FDIC, as of August 18, 2008.

18. Morgan Bank became a national bank on September 23, 2008, on its conversion from a Utah-chartered industrial bank. The 2006 evaluation was conducted before this conversion. MSPB became a national bank on July 1, 2010, on its conversion from a limited-purpose savings association not subject to the CRA. MSPB has not yet been evaluated under the CRA by the Office of the Comptroller of the Currency.

19. Section 3 of the BHC Act also 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 U.S.C. § 1842(c)(3)(A)). CIC has committed that, to the extent not prohibited by applicable law, it 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, the International Banking Act, and other applicable federal laws. CIC also has committed to cooperate with the Board to obtain any waivers or exemptions that may be necessary to enable it or its affiliates to make such information available to the Board. Based on all facts of record, the Board has concluded that CIC has provided adequate assurances of access to any appropriate information the Board may request.

ment. The chairman and vice chairman of CIC are appointed directly by the State Council and all other officer and director positions must be approved by the State Council. Each of the following Chinese government agencies is entitled to a seat on CIC's board of directors: the Ministry of Finance, the People's Bank of China (''PBOC''), the National Development and Reform Commission, the Ministry of Commerce, and the State Administration of Foreign Exchange. In addition, the Ministry of Finance of the People's Republic of China supervises CIC's finances and accounting, and China's National Audit Office conducts periodic external audits of CIC. This oversight by the State Council and by a number of agencies of the Chinese government, including the Ministry of Finance and the PBOC, allows for review of the worldwide investment strategy and portfolio of CIC. On this basis, appropriate authorities in China would appear to have full access to and oversight of CIC and its activities.

In considering this issue, the Board has taken into account that the proposed investment in Morgan Stanley would be a minority, noncontrolling interest. CIC has represented that it has no intention to control or exercise a controlling interest over Morgan Stanley and, as noted, has provided the Board with Passivity Commitments that help ensure that CIC cannot exercise control or a controlling influence. In addition, business relationships between CIC and Morgan Stanley are limited by the Passivity Commitments.

Based on all the facts of record, the Board has determined that CIC is subject to comprehensive supervision on a consolidated basis by its appropriate home-country authorities for purposes of this application.[20]

Conclusion

Based on the foregoing and all the facts of record, the Board has approved CIC's application to acquire up to 10 percent of the voting shares of Morgan Stanley pursuant to section 3(a)(3) of the BHC Act.[21] 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 CIC with the conditions imposed in this order and the commitments made to the Board in connection with the application. For purposes of this action, the conditions and commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decision herein and, as such, may be enforced in proceedings under applicable law.

20. Neither Huijin nor any of the three Chinese banks with U.S. banking operations that are controlled by Huijin will be a direct or indirect investor in Morgan Stanley. In evaluating a proposal by Huijin or any of the Chinese banks owned by Huijin to acquire an insured depository institution in the United States, the Board would evaluate whether that entity is subject to consolidated comprehensive home-country supervision.

21. The Board also has approved the indirect acquisition by CIC of Morgan's interests in Chinatrust and Herald.

The proposal may not be consummated before the 15th 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 the Federal Reserve Bank of New York, acting pursuant to delegated authority.

By order of the Board of Governors, August 31, 2010.

Voting for this action: Chairman Bernanke and Governors Kohn, Warsh, Duke, and Tarullo.

Robert deV. Frierson
Deputy Secretary of the Board

Premier Commerce Bancorp, Inc.
Palos Hills, Illinois

Order Approving the Formation of a Bank Holding Company

Premier Commerce Bancorp, Inc. (''Premier Commerce'') has requested the Board's approval under section 3 of the Bank Holding Company Act (''BHC Act'')[1] to become a bank holding company and to acquire all the voting shares of G.R. Bancorp, Ltd. (''GRB''), and thereby indirectly acquire GRB's subsidiary bank, The First National Bank of Grand Ridge (''Bank''),[2] both of Grand Ridge, Illinois.

Notice of the proposal, affording interested persons an opportunity to comment, has been published (75 *Federal Register* 8944-45 (2010)). The time for filing comments has expired, and the Board has considered the application and all comments received in light of the factors set forth in section 3 of the BHC Act.

Premier Commerce is a newly organized corporation formed for the purpose of acquiring control of GRB. Bank, with total assets of $35.2 million, is the 545th largest insured depository institution in Illinois, controlling deposits of approximately $28.4 million, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the state.[3]

Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or that would be in furtherance of an attempt to monopolize the business of banking in any relevant banking market. The BHC Act also prohibits the Board from approving a proposal that would substantially lessen competition in any relevant banking market, unless the anticompetitive effects of the proposal are clearly outweighed in the public interest

1. 12 U.S.C. § 1842.

2. GRB owns 83.3 percent of the voting shares of Bank.

3. Asset and deposit data are as of December 31, 2009. Ranking data are as of June 30, 2009, and reflect merger activity through that date. In this context, insured depository institutions include commercial banks, savings banks, and savings associations.

by the probable effect of the proposal in meeting the convenience and needs of the community to be served.[4]

Premier Commerce does not currently control a depository institution. 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.

Financial, Managerial, and Supervisory Considerations and Future Prospects

Section 3 of the BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and the depository institutions involved in the proposal and certain other supervisory factors.[5] The Board has considered those factors in light of all the facts of record, including supervisory and examination information received from the Office of the Comptroller of Currency ("OCC"), the primary federal supervisor of Bank, and publicly reported and other available financial information, including information provided by Premier Commerce. In addition, the Board has consulted with the OCC.

In evaluating financial factors in proposals involving newly formed small bank holding companies, the Board reviews the financial condition of both the applicant and the target depository institution. The Board also evaluates the financial condition of the pro forma organization, including its capital position, asset quality, and earnings prospects, and the impact of the proposed funding on the transaction. In addition, for proposals involving small bank holding companies, the Board evaluates the institution's compliance with the Board's Small Bank Holding Company Policy Statement, including compliance with those measures that are used to assess capital adequacy and overall financial strength.[6] In assessing financial factors, the Board consistently has considered capital adequacy to be especially important.

The Board has considered carefully the financial factors of the proposal. Bank currently is well capitalized and would remain so on consummation of the proposal, and Premier Commerce would be in compliance with relevant capital standards. The transaction will be structured as a cash purchase funded from proceeds of the issuance of new holding company stock. Based on its review of the financial considerations related to the proposal, the Board finds that Premier Commerce has sufficient financial resources to effect the acquisition and to comply with the Board's Small Bank Holding Company Policy Statement.

The Board also has considered the managerial resources of the applicant, including the proposed management of the organization. The Board has reviewed the examination records of Bank, including assessments of its current management, risk-management systems, and operations. In addition, the Board has considered the supervisory experience of the OCC with Bank, including its record of compliance with applicable banking laws and anti-money-laundering laws, and the proposed management officials and principal shareholders of Premier Commerce. The Board also has considered Premier Commerce's plan for implementing the proposal, including the proposed management after consummation.

In addition, the Board has considered carefully the future prospects of Premier Commerce and Bank. Based on all the facts of record, the Board concludes that considerations relating to the financial and managerial resources and future prospects of the institutions involved in the proposal are consistent with approval, as are the other supervisory factors under the BHC Act.

Convenience and Needs Considerations

In acting on proposals under section 3 of the BHC Act, the Board also must consider the effects of the proposal on the convenience and needs of the communities to be served and take into account the records of the relevant insured depository institutions under the Community Reinvestment Act ("CRA").[7] The Board has carefully considered all the facts of record, including evaluations of the CRA performance record of Bank, information provided by Premier Commerce, and public comment received on the proposal. Bank received a "satisfactory" rating at its most recent CRA performance evaluation by the OCC, as of March 31, 2008.

A commenter expressed concern that Bank would not adequately serve local credit needs after consummation of the proposal because few of the proposed directors have associations with the local community. Premier Commerce has stated that it intends to maintain Bank's current location for the indefinite future and that it is contractually obligated to maintain Bank's Grand Ridge office for at least five years. Premier Commerce also has represented that it expects to increase lending in the Grand Ridge community after acquiring Bank. In addition, Premier Commerce has represented that the proposal would benefit Bank's customers by expanding the bank's offerings to include internet banking, remote capture, and other technology-based products and services.

Based on a review of the entire record, the Board has concluded that convenience and needs considerations and the CRA performance record of Bank are consistent with approval of the proposal.

Conclusion

Based on the foregoing and all 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 and other

4. 12 U.S.C. § 1842(c)(1).
5. 12 U.S.C. § 1842(c)(2) and (3).
6. 12 CFR 225, Appendix C.
7. 12 U.S.C. § 2901 et seq.

applicable statutes. The Board's approval is specifically conditioned on compliance by Premier Commerce with the conditions in this order and all the commitments it made to the Board in connection with the application. For purposes of this action, the conditions and commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decision herein and, as such, may be enforced in proceedings under applicable law.

The proposed transaction may not be consummated before the 15th 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 the Federal Reserve Bank of Chicago, acting pursuant to delegated authority.

By order of the Board of Governors, effective July 1, 2010.

Voting for this action: Chairman Bernanke and Governors Kohn, Warsh, Duke, and Tarullo.

ROBERT deV. FRIERSON
Deputy Secretary of the Board

The Toronto-Dominion Bank Toronto, Canada

Order Approving the Acquisition of a Bank Holding Company

The Toronto-Dominion Bank (''TD'') and its subsidiary bank holding companies, TD US P & C Holdings ULC (''TD ULC''), Calgary, Canada, and TD Bank US Holding Company (''TD Bank US HC''), Portland, Maine (collectively, ''Applicants''), have requested the Board's approval under section 3 of the Bank Holding Company Act (''BHC Act'')[1] to acquire The South Financial Group, Inc. (''TSFG'') and its subsidiary bank, Carolina First Bank (''Carolina First''), both of Greenville, South Carolina.[2]

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (75 *Federal Register* 30,406 (2010)). 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 the BHC Act.

TD, with total consolidated assets equivalent to $568 billion, is the second largest depository organization in Canada.[3] TD operates a branch in New York City and an agency in Houston. Through TD Bank US HC, TD controls two subsidiary banks in the United States, TD Bank and TD Bank USA, National Association (''TD Bank USA''), Portland, Maine. TD Bank US HC, with total consolidated assets of $155 billion, is the 18th largest depository organization in the United States, controlling $125 billion in deposits.[4] Its subsidiary banks operate in 12 states and the District of Columbia.[5] In Florida, the only state where a subsidiary depository institution of TD Bank US HC and TSFG both operate, TD Bank US HC is the 16th largest depository organization, controlling deposits of approximately $4.4 billion.

TSFG has total consolidated assets of approximately $12.4 billion, and its subsidiary bank operates in South Carolina, North Carolina, and Florida. TSFG is the 13th largest depository organization in South Carolina, controlling deposits of $5.5 billion. In Florida, TSFG is the 20th largest depository organization, controlling deposits of $3 billion.

On consummation of the proposal, TD Bank US HC would become the 17th largest depository organization in the United States, with total consolidated assets of approximately $167 billion. TD Bank US HC would control deposits of approximately $134.7 billion, which represent 1.7 percent of the total amount of deposits of insured depository institutions in the United States.[6] In Florida, TD Bank US HC would become the 11th largest depository organization, controlling deposits of approximately $7.4 billion, which represent approximately 1.8 percent of deposits of insured depository institutions in the state.

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 bank holding company's home state if certain conditions are met. For purposes of the BHC Act, the home state of TD is New York,[7] and TSFG is located in South Carolina, North Carolina, and Florida.[8]

Based on a review of all the facts of record, including relevant state statutes, the Board finds that the conditions for an interstate acquisition enumerated in section 3(d) of

1. 12 U.S.C. § 1842.

2. TD, TD ULC, and TD Bank US HC are all financial holding companies within the meaning of the BHC Act. TD filed an application with the Office of the Comptroller of the Currency (''OCC'') on June 18, 2010, for approval under the Bank Merger Act (12 U.S.C. § 1828(c)) to merge Carolina First into TD's subsidiary bank, TD Bank, N.A., (''TD Bank''), Wilmington, Delaware.

3. Canadian asset and ranking data are as of April 30, 2010, and are based on the exchange rate as of that date.

4. Asset data and nationwide deposit ranking data are as of March 31, 2010, and statewide deposit and ranking data are as of June 30, 2009.

5. TD Bank operates in Connecticut, Delaware, Florida, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Vermont, Virginia, and the District of Columbia. TD Bank USA operates in Maine.

6. In this context, insured depository institutions include commercial banks, savings banks, and savings associations.

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

8. 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 or headquartered or operates a branch (12 U.S.C. §§ 1841(o)(4)–(7), 1842(d)(1)(A), and 1842(d)(2)(B)).

the BHC Act are met in this case.[9] 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

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 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 its probable effect in meeting the convenience and needs of the community to be served.[10]

Applicants and TSFG have subsidiary insured depository institutions that compete directly in five banking markets in Florida: Miami-Fort Lauderdale, Orlando, Palatka, St. Augustine, and West Palm Beach. 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. In particular, the Board has considered the number of competitors that would remain in the banking markets, the relative shares of total deposits in depository institutions (''market deposits'') controlled by Applicants and TSFG in the markets,[11] the concentration levels of market deposits and the increases in those levels as measured by the Herfindahl–Hirschman Index (''HHI'') under the Department of Justice Merger Guidelines (''DOJ Guidelines''),[12] other characteristics of the markets, and commitments that TD has made to divest branches in the Palatka banking market.

A. Banking Market with Divestiture

Applicants and TSFG compete directly in one banking market, the Palatka banking market, that warrants a detailed review of competitive effects.[13] TD Bank is the largest insured depository institution in the Palatka banking market, controlling deposits of approximately $250.2 million, which represent approximately 34.3 percent of market deposits. Carolina First is the fourth largest depository institution in the market, controlling deposits of approximately $92.7 million, which represent approximately 12.7 percent of market deposits. On consummation and without the proposed divestiture, the HHI in this market would increase 873 points, from 2071 to 2944, and the pro forma market share of the combined entity would be 47 percent.

To reduce the potential adverse effects on competition in the Palatka banking market, TD has committed to divest branches with no less than $59 million in deposits, in the aggregate, to an out-of-market insured depository organization.[14] On consummation of the proposed merger, and after accounting for the divestiture, TD would remain the largest depository institution in the market, controlling deposits of approximately $283.9 million, which represent 38.9 percent of market deposits. The HHI would increase no more than 243 points to 2313.

The Board has considered carefully whether other factors either mitigate the competitive effects of the proposal or indicate that the proposal would have a significantly adverse effect on competition in the market.[15] In this market, the anticompetitive effects of this proposal are mitigated by several factors. On consummation of the proposal and the proposed divestiture to an out-of-market insured depository institution, five other insured depository institutions would continue to operate in the market.

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9. 12 U.S.C. §§ 1842(d)(1)(A)–(B) and 1842(d)(2)–(3). TD is adequately capitalized and adequately managed, as defined by applicable law. TSFG's subsidiary bank has been in existence and operated for the minimum period of time required by applicable state laws and for more than five years. *See* 12 U.S.C. § 1842(d)(1)(B)(i)–(ii). On consummation of the proposal, TD would control less than 10 percent of the total amount of deposits of insured depository institutions in the United States (12 U.S.C. § 1842(d)(2)(A)). TD also would control less than 30 percent of, and less than the applicable state deposit cap for, the total amount of deposits in insured depository institutions the relevant states (12 U.S.C. § 1842(d)(2)(B)–(D)). All other requirements of section 3(d) of the BHC Act would be met on consummation of the proposal.

10. 12 U.S.C. § 1842(c)(1).

11. Deposit and market share data are based on data reported by insured depository institutions in the summary of deposits data as of June 30, 2009, 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 Bulletin* 743 (1984). Thus, the Board regularly has included thrift institution deposits in the market share calculation on a 50 percent weighted basis. *See, e.g., First Hawaiian, Inc.*, 77 *Federal Reserve Bulletin* 52 (1991).

12. Under the DOJ Guidelines, a market is considered unconcentrated if the post-merger HHI is less than 1000, moderately concentrated if the post-merger HHI is between 1000 and 1800, and highly concentrated if the post-merger HHI is more than 1800. The Department of Justice (''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 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 entities.

13. The Palatka banking market is defined as Putnam County and the Hastings area of St. Johns County, Florida.

14. TD has committed that, before consummation of the proposed merger, it will execute an agreement for the proposed divestiture in the Palatka banking market with a purchaser that the Board determines to be competitively suitable. TD also has committed to complete the divestiture within 180 days after consummation of the proposed merger. In addition, TD has committed that, if it is unsuccessful in completing the proposed divestiture within such time period, it will transfer the unsold branches to an independent trustee who will be instructed to sell the branches to an alternate purchaser or purchasers in accordance with the terms of this order and without regard to price. The trust agreement, trustee, and any alternate purchaser must be deemed acceptable by the Board. *See BankAmerica Corporation*, 78 *Federal Reserve Bulletin* 338 (1992); *United New Mexico Financial Corporation*, 77 *Federal Reserve Bulletin* 484 (1991).

15. The number and strength of factors necessary to mitigate the competitive effects of a proposal depend on the size of the increase in and resulting level of concentration in a banking market.

In addition, the Board notes that three community credit unions also exert a competitive influence in the Palatka banking market.[16] These credit unions offer a wide range of consumer products, operate street-level branches, and have membership open to almost all the residents in the market. The Board concludes that their activities in this banking market exert sufficient competitive influence that mitigate, in part, the potential competitive effects of the proposal.[17]

B. Banking Markets without Divestiture

Consummation of the proposal would be consistent with Board precedent and within the thresholds in the DOJ Guidelines in the four remaining banking markets in which TD's subsidiary depository institutions and Carolina First directly compete.[18] On consummation of the proposal, three markets would remain moderately concentrated, and one would remain unconcentrated, as measured by the HHI. The change in the HHI measure of concentration in each of the banking markets would be small, however, and numerous competitors would remain in each market.

C. Views of Other Agencies and Conclusion on Competitive Considerations

The DOJ also has conducted a detailed review of the potential competitive effects of the proposal and has advised the Board that consummation of the proposal would not likely have a significantly adverse effect on competition in any relevant banking market. In addition, the appropriate banking agencies have been afforded an opportunity to comment and have not objected to the competitive effects of the proposal.

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 resources in the five banking markets in which TD and TSFG compete directly or in any other relevant banking market. Accordingly, the Board has determined that competitive considerations are consistent with approval.

Financial, Managerial, and Supervisory Considerations

Section 3 of the BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and depository institutions 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 confidential supervisory and examination information from the U.S. banking supervisors of the institutions involved and publicly reported and other financial information, including substantial information provided by Applicants. The Board also has consulted with the Office of the Superintendent of Financial Institutions ("OSFI"), the agency with primary responsibility for the supervision and regulation of Canadian banks, including TD.

In evaluating the financial resources in expansion proposals by banking organizations, the Board reviews the financial condition of the organizations involved on both a parent-only and consolidated basis, as well as the financial condition of the subsidiary insured depository institutions and significant nonbanking operations. In this evaluation, the Board considers a variety of information, including capital adequacy, asset quality, and earnings performance. In assessing financial resources, the Board consistently has considered capital adequacy to be especially important. The Board also evaluates the financial condition of the combined organization at consummation, including its capital position, asset quality, and earnings prospects, and the impact of the proposed funding of the transaction.

The Board has considered carefully the financial resources of the organizations involved in the proposal in light of information provided by Applicants and supervisory information on these organizations available to the Federal Reserve, including information from the Federal Deposit Insurance Corporation ("FDIC"), the primary federal supervisor of Carolina First. The capital levels of TD exceed the minimum levels that would be required under the Basel Capital Accord and are, therefore, considered to be equivalent to the capital levels that would be required of a U.S. banking organization. TD also plans to raise an additional $240 million in capital before consummation that will be downstreamed to its U.S. operations. In addition, the subsidiary depository institutions of TD involved in the proposal are well capitalized and would remain so on consummation. The proposed transaction is structured as a partial share exchange and a partial cash purchase of shares. Applicants will use existing resources to fund the cash purchase of shares.[19] Based on its review of the record, the Board finds that Applicants have sufficient financial resources to effect the proposal.

The Board also has considered the managerial resources of the organizations involved. The Board has reviewed the examination records of Applicants, TSFG, and their subsidiary depository institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered its supervisory experiences and those of other relevant banking supervisory

16. The Board previously has considered the competitiveness of certain active credit unions as a mitigating factor. *See, e.g., Regions Financial Corporation*, 93 *Federal Reserve Bulletin* C16 (2007); *Wachovia Corporation*, 92 *Federal Reserve Bulletin* C183 (2006); *F.N.B. Corporation*, 90 *Federal Reserve Bulletin* 481 (2004).

17. If credit unions are factored into the market calculations on a 50 percent weighted basis, TD would control approximately 35 percent of market deposits on consummation of the proposal, and the HHI would increase 196 points to 1920.

18. These banking markets and the effects of the proposal on their concentrations of banking resources are described in the appendix.

19. On May 18, 2010, TD entered into a Securities Purchase Agreement with the U.S. Department of the Treasury ("Treasury") under which TD will purchase from Treasury all the issued and outstanding shares of TSFG's preferred stock and the related warrant issued in connection with the Treasury's Capital Purchase Program on December 5, 2008.

agencies, including the OCC and the FDIC, with the organizations and their records of compliance with applicable banking law and with anti-money-laundering laws.

The Board also has considered carefully the future prospects of the organizations involved in the proposal in light of the financial and managerial strength that Applicants will bring to the operations of TSFG. The Board notes that TSFG and Carolina First have recently experienced financial and managerial difficulties and are operating under formal supervisory actions by the Federal Reserve Bank of Richmond and the FDIC. Consummation of this proposal would create a combined organization that would serve as a strong provider of banking and other financial services in the markets served by Carolina First. Moreover, the Board has considered Applicants' plans for implementing the acquisition and managing the integration of TSFG into the TD organization and the proposed management after consummation.[20] The Board also has considered Applicants' experience with acquiring banking organizations and successfully integrating them into the TD organization.

Based on all the facts of record, the Board has concluded that considerations relating to the financial and managerial resources and future prospects of the organizations involved in the proposal are consistent with approval, as are the other supervisory factors.[21]

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.[22] As noted, the OSFI is the primary supervisor of Canadian banks, including TD. The Board previously has determined that TD is subject to comprehensive supervision on a consolidated basis by its home-country supervisor.[23] Based on this finding and all the facts of record, the Board has concluded that TD continues to be subject to comprehensive supervision on a consolidated basis by its home-country supervisor.

Convenience and Needs Considerations

In acting on a proposal under section 3 of the BHC Act, the Board also must consider the effects of the proposal on the convenience and needs of the communities to be served and take into account the records of the relevant insured depository institutions under the Community Reinvestment Act ("CRA").[24] The CRA requires the federal financial supervisory agencies to encourage insured depository 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 a relevant depository institution's record of meeting the credit needs of its entire community, including low- and moderate-income ("LMI") neighborhoods, in evaluating expansionary proposals.[25]

The Board has considered carefully all the facts of record, including reports of examination of the CRA performance records of TD's subsidiary insured depository institutions and Carolina First, data reported by TD under the Home Mortgage Disclosure Act ("HMDA"),[26] other information provided by TD, confidential supervisory information, and public comment received on the proposal. A commenter alleged, based on 2009 HMDA data, that TD has engaged in disparate treatment of minority individuals in home mortgage lending.

A. CRA Performance Evaluations

As provided in the CRA, the Board has considered the convenience and needs factor in light of the evaluations by the appropriate federal supervisors of the CRA performance records of the relevant insured depository institu-

20. The Board received a comment expressing concern about a lawsuit that has been filed by certain shareholders of TSFG concerning the price that TD has offered for TSFG shares. These allegations are subject to litigation before a court of competent jurisdiction and are not within the discretion of the Board to resolve. *Western Bancshares, Inc. v. Board of Governors*, 480 F.2d 749 (10th Cir. 1973).

21. Section 3 of the BHC Act also 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 U.S.C. § 1842(c)(3)(A)). The Board has reviewed the restrictions on disclosure in the relevant jurisdictions in which TD operates and has communicated with relevant government authorities concerning access to information. In addition, TD previously has committed that, to the extent not prohibited by applicable law, it 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, the International Banking Act, and other applicable federal laws. TD also previously has committed to cooperate with the Board to obtain any waivers or exemptions that may be necessary to enable its affiliates to make such information available to the Board. Based on all facts of record, the Board has concluded that TD has provided adequate assurances of access to any appropriate information the Board may request.

22. 12 U.S.C. § 1843(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 CFR 225.13(a)(4). Regulation K provides that a foreign bank will be considered 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 with any affiliates, to assess the bank's overall financial condition and its compliance with laws and regulations. *See* 12 CFR 211.24(c)(1).

23. *See The Toronto-Dominion Bank*, 94 *Federal Reserve Bulletin* C51 (2008); 92 *Federal Reserve Bulletin* C100 (2006); and 91 *Federal Reserve Bulletin* 277 (2005).

24. 12 U.S.C. § 2901 et seq.; 12 U.S.C. § 1842(c)(2).

25. 12 U.S.C. § 2903. The commenter also criticized TD Bank for acquiring assets and liabilities of failed insured depository institutions in FDIC resolution transactions, because those transactions provided no public comment period to submit comments on the bank's CRA performance record. The Board notes that the transactions were processed under emergency review procedures specifically authorized by statute. Moreover, in connection with this proposal, the commenter provided public information about the possible locations of bank's future branches.

26. 12 U.S.C. § 2801 et seq.

tions. 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.[27]

TD Bank received an "outstanding" rating at its most recent CRA performance evaluation by the OCC, as of December 8, 2008.[28] Carolina First received an "outstanding" rating at its most recent CRA performance evaluation by the FDIC, as of September 5, 2006. After the merger with TD Bank, Carolina First's operations will adopt the CRA program of TD Bank, as modified to address issues specific to the markets served by Carolina First.

B. HMDA and Fair Lending Record

The Board has carefully considered the fair lending records and HMDA data of TD in light of public comment received on the proposal. A commenter alleged that, based on 2009 HMDA data, TD has denied the home mortgage loan applications of African American, Hispanic, and Native American borrowers more frequently than those of nonminority applicants.[29] The commenter also alleged that TD made higher-cost mortgage loans disproportionately to African American borrowers than to nonminority borrowers.

Although the HMDA data might reflect certain disparities in the rates of loan applications, originations, denials, or pricing among members of different racial or ethnic groups in certain local areas, they provide an insufficient basis by themselves on which to conclude whether or not TD is excluding any racial or ethnic group on a prohibited basis. The Board recognizes that HMDA data alone, even with the recent addition of pricing information, provide only limited information about the covered loans.[30] HMDA data, therefore, have limitations that make them an inadequate basis, absent other information, for concluding that an institution has engaged in illegal lending discrimination.

The Board is nevertheless concerned when HMDA data for an institution indicate disparities in lending and believes that all lending institutions 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 ethnicity. Moreover, the Board believes that all bank holding companies and their affiliates must conduct their mortgage lending operations without any abusive lending practices and in compliance with all consumer protection laws.

Because of the limitations of HMDA data, the Board has considered these data carefully and taken into account other information, including examination reports that provide on-site evaluations of compliance by TD's subsidiary insured depository institutions with fair lending laws. The Board also has consulted with the OCC, the primary federal supervisor of TD's subsidiary banks. In addition, the Board has considered information provided by TD about its compliance risk-management systems.

The record of this application, including confidential supervisory information, indicates that TD has taken steps to ensure compliance with fair lending and other consumer protection laws and regulations. TD also represents that its subsidiary banks have such compliance policies and procedures in place. Specifically, TD Bank maintains a fair lending compliance program that includes a second-review process to identify and prevent any discriminatory practices and a process for resolving fair lending complaints. TD Bank provides annual fair lending training for all employees and compliance personnel involved in any respect with mortgage and consumer lending activities and conducts periodic internal audits of its fair lending and consumer protection programs, which also are subject to periodic review by the OCC. TD has stated that Carolina First's operations would be integrated into TD's existing fair lending and consumer protection compliance programs after consummation of the proposal.

The Board also has considered the HMDA data in light of other information, including overall performance records of the subsidiary banks of TD and TSFG under the CRA. These established efforts and records of performance demonstrate that the institutions are active in helping to meet the credit needs of their entire communities.

C. Conclusion on Convenience and Needs and CRA Performance

The Board has considered carefully all the facts of record, including the evaluation of the CRA performance records of TD Bank and TD Bank USA, information provided by TD, comments received on the proposal, and confidential supervisory information. TD represented that it would offer a broader array of banking products and services to the customers serviced by Carolina First. In addition, consummation of the proposal would allow the combined organization to continue to provide credit and other financial services in support of the convenience and needs of the communities served by Carolina First. Based on a review of the entire record, the Board concludes that considerations relating to the convenience and needs factor and the

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27. *See Interagency Questions and Answers Regarding Community Reinvestment*, 75 *Federal Register* 11642 at 11665 (2010).

28. TD's other bank subsidiary, TD Bank USA, received a "satisfactory" rating at its most recent CRA performance evaluation by the OCC, as of December 8, 2008.

29. The Board reviewed HMDA data for 2009 for TD Bank in its combined assessment area and in its statewide assessment areas for Maine, Massachusetts, New Hampshire, New Jersey, and Pennsylvania.

30. 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. In addition, credit history problems, excessive debt levels relative to income, and high loan amounts relative to the value of the real estate collateral (reasons most frequently cited for a credit denial or higher credit cost) are not available from HMDA data.

CRA performance records of the relevant insured depository institutions are consistent with approval of the transaction.

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 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 Applicants with the conditions in this order and all the commitments made to the Board in connection with the proposal.[31] For purposes of this transaction, 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 proposal may not be consummated before the 15th 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 New York, acting pursuant to delegated authority.

By order of the Board of Governors, effective July 22, 2010.

Voting for this action: Chairman Bernanke and Governors Kohn, Warsh, Duke, and Tarullo.

Robert deV. Frierson
Deputy Secretary of the Board

31. The commenter requested that the Board hold a public meeting or 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 the bank to be acquired makes a written recommendation of denial of the application. The Board has not received such a recommendation from a 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 necessary or appropriate to clarify material factual issues related to the application and to provide an opportunity for testimony (12 CFR 225.16(e), 262.3(e), and 262.25(d)). The Board has considered carefully the commenter's request in light of all the facts of record. As noted, the commenter had ample opportunity to submit its views and, in fact, 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 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.

Appendix

TD and TSFG Banking Markets in Florida Consistent with Board Precedent and DOJ Guidelines

Bank	Rank	Amount of deposits (dollars)	Market deposit shares (percent)	Resulting HHI	Change in HHI	Remaining number of competitors
Miami-Fort Lauderdale—Broward and Miami-Dade counties						
TD Bank US HC Pre-Consummation	28	495.7 mil.	.5	753	1	102
TSFG	33	398.5 mil.	.4	753	1	102
TD Bank US HC Post-Consummation	22	894.2 mil.	.8	753	1	102
Orlando—Orange, Osceola, and Seminole counties; the western half of Volusia County; and the towns of Clermont and Groveland in Lake County						
TD Bank US HC Pre-Consummation	20	266.6 mil.	.8	1,199	1	49
TSFG	15	335.1 mil.	1.0	1,199	1	49
TD Bank US HC Post-Consummation	10	601.7 mil.	1.8	1,199	1	49

Appendix—*Continued*

TD and TSFG Banking Markets in Florida Consistent with Board Precedent and DOJ Guidelines—Continued

Bank	Rank	Amount of deposits (dollars)	Market deposit shares (percent)	Resulting HHI	Change in HHI	Remaining number of competitors
St. Augustine—St. Johns County, excluding the towns of Fruit Cove, Ponte Vedra, Ponte Vedra Beach, Jacksonville, Switzerland, and Hastings						
TD Bank US HC Pre-Consummation	4	105.5 mil.	6.2	1,266	36	14
TSFG	11	49.2 mil.	2.9	1,266	36	14
TD Bank US HC Post-Consummation	4	154.7 mil.	9.1	1,266	36	14
West Palm Beach—Palm Beach County, east of Loxahatchee; and the towns of Indiantown and Hobe Sound in Martin County						
TD Bank US HC Pre-Consummation	10	843.1 mil.	2.3	1,100	2	58
TSFG	29	164.7 mil.	.5	1,100	2	58
TD Bank US HC Post-Consummation	8	1.0 bil.	2.8	1,100	2	58

Note: Deposit data are as of June 30, 2009. Deposit amounts are unweighted. Rankings, market deposit shares, and HHIs are based on thrift institution deposits weighted at 50 percent.

ORDER ISSUED UNDER BANK MERGER ACT

Metcalf Bank
Lee's Summit, Missouri

Order Approving the Acquisition and Establishment of Branches

Metcalf Bank,[1] a state member bank, has requested the Board's approval under section 18(c) of the Federal Deposit Insurance Act[2] (''Bank Merger Act'') to acquire certain assets and assume certain liabilities of four branches of The First National Bank of Olathe (''FNB Olathe''), Olathe, Kansas (''Kansas Branches'').[3] In addition, Metcalf Bank has applied under section 9 of the Federal Reserve Act (''FRA'') to establish and operate branches at the locations of the Kansas Branches.[4]

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published in local publications in accordance with the Bank Merger Act and the Board's Rules of Procedure.[5] As required by the Bank Merger Act, a report on the competitive effects of the merger was requested from the United States Attorney General, and a copy of the request was provided to the Federal Deposit Insurance Corporation (''FDIC''). 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 the Bank Merger Act.[6]

Central, the parent bank holding company of Metcalf Bank, has total assets of approximately $9.1 billion and operates 13 banks in Missouri, Kansas, Oklahoma, and Illinois.[7] Metcalf Bank, with total assets of $990 million, operates in Missouri and Kansas. In Missouri, Central is the fourth largest depository organization, controlling deposits of approximately $5.8 billion, which represent 4.7 percent of the total amount of deposits of depository organizations

1. Metcalf Bank is a subsidiary of First National Bancor, Inc. (''FNB''), also of Lee's Summit, which in turn is a subsidiary of Central Bancompany (''Central''), Jefferson City, Missouri. FNB and Central are bank holding companies.
2. 12 U.S.C. § 1828(c).
3. The Kansas Branches are located at 7800 College Boulevard and 7960 West 135th Street, both in Overland Park, and 15100 West 67th Street and 6114 Nieman Road, both in Shawnee, all in Kansas.
4. 12 U.S.C. § 321.
5. 12 CFR 262.3(b).
6. Although no comments were received in connection with this application, the Board received comments on Metcalf Bank's record of meeting the convenience and needs of its community in connection with an application by Central to acquire Overland Bancorp, Inc. (''Overland'') and thereby indirectly acquire Bank of Belton, both of Belton, Missouri. The Board has not acted on that application. The comments regarding Metcalf Bank that were received in connection with the Overland application have also been considered in connection with this proposal.
7. Asset data are as of June 30, 2010.

in the state (''state deposits'').[8] In Kansas, Central is the 38th largest depository organization, controlling deposits of approximately $307.6 million. The Kansas Branches control deposits of $234.1 million. On consummation, Central would become the 21st largest depository organization in Kansas, controlling deposits of approximately $541.7 million, which represent less than 1 percent of state deposits.

Interstate Analysis

Section 102 of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (''Riegle-Neal Act'') authorizes a bank to merge with another bank under certain conditions unless, before June 1, 1997, the home state of one of the banks involved in the transaction adopted a law expressly prohibiting merger transactions involving out-of-state banks.[9] For purposes of the Riegle-Neal Act, the home state of Metcalf Bank is Missouri, and the home state of FNB Olathe is Kansas.[10] Metcalf Bank has provided a copy of its Bank Merger Act application to the relevant state agency and has complied with state law. The proposal also complies with all other requirements of the Riegle-Neal Act.[11] Accordingly, the Riegle-Neal Act authorizes the proposed interstate branch acquisitions.

Competitive Considerations

The Bank Merger 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 act also prohibits the Board from approving a proposal 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 its probable effect in meeting the convenience and needs of the community to be served.[12]

Metcalf Bank and the Kansas Branches compete directly in the Kansas City, Missouri banking market (''Kansas City banking market'').[13] The Board has reviewed carefully the competitive effects of the proposal in this banking market in light of all the facts of record, including the number of competitors that would remain and the relative shares of total deposits in insured depository institutions in the Kansas City banking market (''market deposits'') that they would control,[14] the concentration level of market deposits and the increase in that level, as measured by the Herfindahl–Hirschman Index (''HHI'') and the Department of Justice Bank Merger Competitive Review guidelines (''DOJ Bank Merger Guidelines''),[15] and other characteristics of the markets.

Consummation of the proposal would be consistent with Board precedent and within the thresholds in the DOJ Bank Merger Guidelines in the Kansas City banking market. On consummation, the banking market would remain unconcentrated, as measured by the HHI, and numerous competitors would remain in the banking market.[16]

The DOJ has advised the Board that consummation of the proposal is not likely to have a significant adverse competitive effect in the Kansas City banking market. The

8. Deposit data and state rankings are as of June 30, 2009.

9. 12 U.S.C. § 1831u.

10. *See* 12 U.S.C. § 1831u(a)(4) and (g)(4).

11. *See* 12 U.S.C. § 1831u. Metcalf Bank is adequately capitalized and adequately managed, as defined in the Riegle-Neal Act. The Missouri Division of Finance has indicated that this transaction would comply with applicable Missouri law and on June 22, 2010, indicated that it would be in a position to act favorably on Metcalf Bank's application to establish branches at the locations of the Kansas Branches. There is no filing requirement with Kansas's Office of the State Banking Commissioner when an out-of-state bank acquires a Kansas branch. *See* Special Kansas Banking Order 1997-2. On consummation of the proposal, Metcalf Bank and its affiliated insured depository institutions would control less than 10 percent of the total amount of deposits in insured depository institutions in the United States and less than 30 percent of the total amount of deposits in insured depository institutions in Kansas. The term ''insured depository institutions'' includes insured commercial banks, savings banks, and savings associations. All other requirements of section 102 of the Riegle-Neal Act would also be met on consummation of the proposal.

12. 12 U.S.C. § 1828(c)(5).

13. Central operates two banks in the Kansas City banking market: Metcalf Bank and First Central Bank, Warrensburg, Missouri. The Kansas City banking market encompasses Cass, Clay, Jackson, Platte, and Ray counties, Missouri; the towns of Trimble and Holt in Clinton County, Missouri; the towns of Chilhowee, Holden, and Kingsville in Johnson County, Missouri; and Johnson, Leavenworth, and Wyandotte counties, Kansas.

14. Deposit and market share data are based on data reported by insured depository institutions in the summary of deposits data as of June 30, 2009, 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 Bulletin* 743 (1984). Thus, the Board regularly has included thrift institution deposits in the market share calculation on a 50 percent weighted basis. *See, e.g., First Hawaiian, Inc.*, 77 *Federal Reserve Bulletin* 52 (1991).

15. Under the DOJ Bank Merger Guidelines, a market is considered unconcentrated if the post-merger HHI is under 1000, moderately concentrated if the post-merger HHI is between 1000 and 1800, and highly concentrated if the post-merger HHI exceeds 1800. The Department of Justice (''DOJ'') has informed the Board that a bank merger or acquisition generally would 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 more than 200 points. Although the DOJ and the Federal Trade Commission recently issued revised Horizontal Merger Guidelines, the DOJ has confirmed that the DOJ Bank Merger Guidelines, which were issued in 1995, were not changed. Press Release, Department of Justice (August 19, 2010), available at www.justice.gov/opa/pr/2010/August/10-at-938.html.

16. Central operates the 11th largest depository organization in the market, controlling deposits of approximately $837 million, which represent 2.3 percent of market deposits. Metcalf Bank accounts for $786.8 million of Central's deposits in this market. The Kansas Branches control $234.1 million in deposits, which represents less than 1 percent of market deposits. After consummation, Central would become the 10th largest depository organization in the market, controlling deposits of approximately $1.1 billion, which represent 3 percent of market deposits. On consummation of the proposal, the HHI would decrease 1 point to 559 for the Kansas City banking market, and 109 depository organizations would remain in the market.

Board also has received no objection to the proposal from any federal banking agency.

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 resources in any relevant banking market. Accordingly, the Board has determined that competitive considerations are consistent with approval.

Financial and Managerial Resources and Future Prospects

In reviewing the proposal under the Bank Merger Act, the Board has also carefully considered the financial and managerial resources and future prospects of the companies and depository institutions involved in the proposal and certain other supervisory factors. The Board has considered these factors in light of all the facts of record, including confidential reports of examination, other supervisory information from the primary federal and state supervisors of the organizations involved in the proposal, publicly reported and other financial information, and information provided by Metcalf Bank.

In evaluating financial factors in expansion proposals by banking organizations, the Board considers a variety of measures, including capital adequacy, asset quality, and earnings performance. In assessing financial factors, the Board consistently has considered capital adequacy to be especially important. The Board also evaluates the financial condition of the combined organization at consummation, including its capital position, asset quality, and earnings prospects, and the impact of the proposed funding of the transaction.

Metcalf Bank is well capitalized and would remain so on consummation of the proposal. Central, Metcalf Bank's parent holding company, also would remain well capitalized on consummation of the proposal. Based on its review of the record in this case, the Board finds that Metcalf Bank has sufficient financial resources to effect the proposal. As noted, the proposed transaction is structured as an asset purchase and assumption of liabilities. Central will use its existing resources to contribute approximately $25 million to Metcalf Bank to fund the transaction.

The Board also has considered the managerial resources of Metcalf Bank and reviewed the examination records of the bank, including assessments of its management, risk-management systems, and operations. In addition, the Board has considered its supervisory experiences with the relevant organizations and the organizations' records of compliance with applicable banking law, including anti-money-laundering laws. The Board also has considered Metcalf Bank's plans for implementing the proposal, including the proposed management of the Kansas Branches after consummation.

Based on all the facts of record, the Board concludes that considerations relating to the financial and managerial resources and future prospects of the organizations involved in the proposal are consistent with approval under the Bank Merger Act.

Convenience and Needs Considerations

In acting on the proposal, the Board also must consider its effects on the convenience and needs of the communities to be served and take into account the records of the relevant insured depository institutions under the Community Reinvestment Act ("CRA").[17] The CRA requires the federal financial supervisory agencies to encourage insured depository 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.[18]

The Board has considered carefully all the facts of record, including evaluations of the CRA performance records of Metcalf Bank, data reported by Metcalf Bank under the Home Mortgage Disclosure Act ("HMDA")[19] and the CRA, other information provided by the bank, confidential supervisory information, and public comment. Two commenters asserted that Metcalf Bank had not adequately served the credit and investment needs of its LMI communities. Based on the bank's record of lending to small businesses and small farms and the HMDA data reported by the bank in 2008, the commenters contended that Metcalf Bank's percentage of loans in low-income census tracts was not commensurate with the percentage of such tracts in the bank's assessment area and that Metcalf Bank had made an insufficient number of residential, small business, and small farm loans to low-income borrowers. The commenters also expressed concern that Metcalf Bank did not have a sufficient branch presence in low-income census tracts.[20] In addition, the commenters alleged that Metcalf Bank had not served the credit needs of African Americans and had engaged in disparate treatment of African Americans in its mortgage lending activities.

A. CRA Performance Evaluation

As provided in the CRA, the Board has evaluated the convenience and needs factor in light of the 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 perfor-

17. 12 U.S.C. § 2901 et seq.
18. 12 U.S.C. § 2903.
19. 12 U.S.C. § 2801 et seq.
20. None of the Kansas Branches is in an LMI or minority census tract.

mance under the CRA by its appropriate federal supervisor.[21] Metcalf Bank received a "satisfactory" rating at its most recent CRA examination by the Federal Reserve Bank of Kansas City, as of April 13, 2009 ("2009 Examination"). FNB Olathe also received a "satisfactory" rating at its most recent CRA examination by the Office of the Comptroller of the Currency, as of July 6, 2009.

In the 2009 Examination, Metcalf Bank received a "high satisfactory" rating on its lending test and a "low satisfactory" rating on its investment and service tests.[22] Examiners noted that the bank's primary lending focus was commercial loans, which represented approximately 80 percent of its total loan portfolio.[23] They found that Metcalf Bank's lending activity during the evaluation period reflected good responsiveness to the credit needs of its community.[24] Examiners determined that the overall geographic distribution of the bank's HMDA loans reflected an adequate penetration throughout all geographies of the assessment area, including LMI tracts, in light of the economic and demographic aspects of the assessment area and in comparison to the aggregate of lenders' lending data.[25] Examiners noted a number of factors that reasonably limited Metcalf Bank's ability to increase its mortgage lending market share in the LMI geographies, including the small percentage of LMI tracts in the bank's assessment area, the lack of affordable housing in the LMI census tracts, the distance of the bank's branches from LMI tracts, and the strong competition in Jackson County, Missouri, from numerous other institutions. In addition, examiners noted factors in LMI census tracts that contributed to lower demand in the bank's assessment area for mortgage and related home loans in those areas, including a low percentage of owner-occupied units, a high percentage of rental units, a large concentration of families below the poverty line, and high unemployment rates.

In the 2009 Examination, examiners considered the geographic distribution of Metcalf Bank's small business loans,[26] which represent the largest percentage of the bank's lending activity, to be good and found that the distribution compared favorably with other lenders in the assessment area. The examiners found that the bank's ability to make small business loans in low-income tracts was limited, in part, because of the low percentage of businesses in those tracts and competition from other institutions.

In addition, examiners found that Metcalf Bank made a high level of qualified community development loans during the evaluation period, including loans targeted to affordable housing and community development projects to help revitalize and stabilize LMI areas. For example, Metcalf Bank made loans to a community development corporation that focuses on LMI neighborhood revitalization and improvements in housing availability in LMI areas through home repair and rehabilitation. Metcalf Bank's community development lending during the evaluation period totaled approximately $13.5 million. Examiners also determined that Metcalf Bank's level of community development investments during the evaluation period was adequate. They noted that the bank made many charitable contributions, the majority of which were to organizations that sponsor community services primarily for LMI individuals or support affordable housing projects.

Under the service test, examiners found that the bank's delivery systems were accessible to geographies and individuals of different income levels. Examiners noted that Metcalf Bank's current branch network, which includes 19 branches in its assessment area, resulted from the merger of three subsidiary banks of Central in 2008. Metcalf Bank also acquired a failed savings bank in 2009. Ten percent of the bank's branches were in moderate-income tracts, and the bank had no branches in low-income tracts.[27] Examiners noted that, although none of the pre-merger banks had branches in the central area of Kansas City, where the substantial majority of LMI census tracts were located, each bank had a long history of serving the banking needs of its respective communities. They also found that the hours of operations and services offered by Metcalf Bank's branches did not vary in a way that inconvenienced portions of the assessment area, particularly in LMI geographies or for LMI individuals. In addition, examiners noted favorably the bank's community development service activities with organizations that focused primarily on affordable housing and economic development.

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21. The Interagency Questions and Answers Regarding Community Reinvestment provide that a CRA examination is an important and often controlling factor in the consideration of an institution's CRA record. *See* Interagency Questions and Answers Regarding Community Reinvestment, 75 *Federal Register* 11,642 at 11,665 (2010).

22. The CRA evaluation for Metcalf Bank includes the record of three of Central's subsidiary banks that merged in 2008: Metcalf Bank, Overland Park, Kansas; First National Bank of Missouri ("FNB Missouri"), also in Lee's Summit; and First Kansas Bank and Trust Company ("First Kansas Bank"), Gardner, Kansas. On April 24, 2008, FNB Missouri merged with Metcalf Bank, and on June 21, 2008, First Kansas Bank merged with Metcalf Bank. On April 18, 2009, Metcalf Bank acquired American Sterling Bank, Sugar Creek, Missouri, a failed federal savings bank, from the FDIC as receiver.

23. Metcalf Bank originated less than 1 percent of total HMDA loans originated by all financial institutions in its assessment area.

24. The evaluation period for Metcalf Bank was from October 18, 2006, to December 31, 2008; for FNB Missouri from February 24, 2003, to December 31, 2008; and for First Kansas Bank from December 18, 2007, to December 31, 2008.

25. The lending data of the aggregate of lenders represent the cumulative lending for all financial institutions that reported HMDA data in a particular market.

26. In this context, "small business loans" are business loans that have an original amount of $1 million or less.

27. The commenters also requested that the Board require Metcalf Bank to open at least one branch in an LMI or minority census tract. The Board consistently has stated that neither the CRA nor the federal banking agencies' CRA regulations require depository institutions to make pledges or enter into commitments. *See, e.g., The PNC Financial Services Group, Inc.*, 94 *Federal Reserve Bulletin* C38 (2008); *Wachovia Corporation*, 91 *Federal Reserve Bulletin* 77 (2005). The Board focuses on the existing CRA and fair lending performance and compliance records of an applicant and the programs that an applicant has in place to serve the credit needs of its assessment area at the time the Board reviews a proposal under the convenience and needs factor.

B. HMDA Data, Fair Lending Records, and Other Issues

The Board has carefully considered the HMDA data and fair lending records of Metcalf Bank, including those data and records for the institutions that merged to form the bank in 2008, in light of public comments. Commenters alleged, based on 2008 HMDA data, disparate treatment of African Americans by Metcalf Bank involving home mortgage loan originations.[28] The Board's consideration of HMDA-related comments included a review of 2007, 2008, and preliminary 2009 HMDA data reported by Metcalf Bank and the institutions that merged into the bank.

Although the HMDA data might reflect certain disparities in the rates of loan applications, originations, and denials among members of different racial or ethnic groups in certain local areas, they provide an insufficient basis by themselves on which to conclude whether or not Metcalf Bank is excluding any group on a prohibited basis. The Board recognizes that HMDA data alone, even with the recent addition of pricing information, provide only limited information about the covered loans.[29] HMDA data, therefore, have limitations that make them an inadequate basis, absent other information, for concluding that an institution has engaged in illegal lending discrimination.

The Board is nevertheless concerned when HMDA data for an institution indicate disparities in lending and believes that all lending institutions 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 ethnicity. Because of the limitations of HMDA data, the Board has considered these data carefully and taken into account other information, including examination reports that provide on-site evaluations of compliance with fair lending laws by Metcalf Bank and the CRA performance record of Metcalf Bank discussed above. In particular, examiners did not find any evidence that Metcalf Bank engaged in illegal discrimination or in any other illegal credit practices. Examiners noted that Metcalf Bank's ability to originate HMDA loans to minority communities in its assessment area was limited by the demographics of minority census tracts[30] (particularly in Jackson County), including the relatively low availability of owner-occupied housing, the high number of rental and vacant properties, and the downturn in the economy.

The record indicates that Metcalf Bank has taken steps and developed programs to ensure compliance with all fair lending and other consumer protection laws and regulations. Metcalf Bank has an internal audit program, including comprehensive fair lending reviews on a continuing basis, to ensure that all applicants are treated fairly and consistently under prudent underwriting standards and industry guidelines. Additionally, Metcalf Bank has a designated compliance officer dedicated to ensuring the bank's fair lending compliance. Metcalf Bank's compliance officer, together with its management, completes an annual compliance risk assessment and participates in compliance monitoring projects, including a project to monitor bank compliance with fair lending. Metcalf Bank hires an independent party to perform the fair lending compliance project.

Since the last examinations of Metcalf Bank, the bank has continued to make efforts to reach and serve the needs of the minority and LMI communities in its assessment area. The bank has enhanced its marketing efforts by increasing its advertising on public transportation and in local publications focused on serving minorities; investing more than $700,000 in targeted mortgage-backed securities in which all mortgages in the pool are to LMI individuals in the bank's assessment area; and donating funds to support a small-dollar loan program/payday loan alternative initiative, which provides an alternative source of short-term lending, primarily to LMI individuals.

C. Conclusion on Convenience and Needs Considerations

The Board has considered carefully the CRA performance, HMDA data, and fair lending records of Metcalf Bank in light of all public comments received. The Board also has considered carefully all facts of record, including the CRA performance evaluations of the institutions involved, confidential supervisory information, and information provided by Metcalf Bank on the actions and programs it has implemented to meet the credit needs of all its communities. As noted above, Metcalf Bank is the result of a recent merger of three relatively small affiliated banks and a failed savings bank. Based on the locations and sizes of the individual institutions before to the merger and the established efforts by Metcalf Bank since the merger, the Board believes that, on balance, the current record of performance of Metcalf Bank in meeting the convenience and needs of its communities is consistent with approval of this proposal. The Board also notes that the proposal would provide customers of the Kansas Branches with a broader array of products and services, including expanded options for loans and additional branch locations.

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 and

28. The commenters also expressed concern that Metcalf Bank received only a few applications from African Americans, noting that the percentage of their residential mortgage loan applications was significantly less than the population of African Americans within the bank's assessment area.

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. In addition, credit history problems, excessive debt levels relative to income, and high loan amounts relative to the value of the real estate collateral (reasons most frequently cited for a credit denial or higher credit cost) are not available from HMDA data.

30. For purposes of this HMDA analysis, a minority census tract is a census tract with a minority population of 51 percent or more.

the CRA performance records of the relevant depository institutions are consistent with approval.

The changes at Metcalf Bank, however, also reflect an opportunity for Metcalf Bank to continue to improve its lending and outreach efforts to residents in LMI communities and minority borrowers in its entire assessment area. Metcalf Bank has outlined several initiatives designed to enable the bank to increase its lending to minority and LMI communities. The bank plans to expand further its specialized advertising to minority and LMI applicants; increase the number of minority and LMI loan applicants by developing more effective systems to track and measure its success in obtaining loan applications from those applicants; and increase community outreach efforts by partnering with organizations that have close ties to minority populations. The Federal Reserve System will continue to monitor and evaluate the lending performance of Metcalf Bank as part of the supervisory process, including assessments of its performance in subsequent examinations.

Other Considerations

Metcalf Bank also has applied under section 9 of the FRA to establish and operate branches at the locations of the Kansas Branches. The Board has assessed the factors it is required to consider when reviewing an application under section 9 of the FRA and finds those factors to be consistent with approval.[31]

Conclusion

Based on the foregoing and all facts of record, the Board has determined that the applications should be, and hereby are, 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 Bank Merger Act and the FRA. The Board's approval is specifically conditioned on compliance by Metcalf Bank with the conditions imposed in this order, the commitments made to the Board in connection with the applications, and receipt of all other regulatory approvals. For purposes of this action, the conditions and commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decision herein and, as such, may be enforced in proceedings under applicable law.

The proposed transactions may not be consummated before the 15th 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 the Federal Reserve Bank of Kansas City, acting pursuant to delegated authority.

By order of the Board of Governors, effective September 2, 2010.

31. 12 U.S.C. § 322; 12 CFR 208.6(b).

Voting for this action: Chairman Bernanke and Governors Kohn,* Warsh, Duke, and Tarullo.

*Governor Kohn voted before his departure from the Board on September 1, 2010.

Robert deV. Frierson
Deputy Secretary of the Board

ORDER ISSUED UNDER INTERNATIONAL BANKING ACT

Banco Davivienda, S.A.
Bogotá Columbia

Order Approving Establishment of a Branch

Banco Davivienda, S.A. ("Bank"), Bogotá Colombia, a foreign bank within the meaning of the International Banking Act ("IBA"), has applied under section 7(d) of the IBA[1] to establish a branch in Miami, Florida, through the conversion of its wholly owned subsidiary, Bancafé International ("Bancafé"), a corporation organized under section 25A of the Federal Reserve Act (Edge Act corporation).[2] 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 a newspaper of general circulation in Miami (*The Miami Herald*, February 10, 2010). The time for filing comments has expired, and the Board has considered all comments received.

Bank, with total consolidated assets of approximately $12.8 billion,[3] is the third largest bank in Colombia by asset size. Sociedades Bolivar S.A. ("Bolivar"), a company whose shares are publicly traded in Colombia, effectively controls Bank through the direct or indirect ownership of more than 62 percent of Bank's outstanding voting shares.[4] Another group of Colombian companies, collectively known as the "Cusezar Group," owns directly and indirectly approximately 19.1 percent of Bank's total voting shares outstanding. No other shareholder or group of shareholders controls more than 10 percent of Bank's outstanding shares. Bank engages in commercial and retail banking services, and it engages in fund administration, trust, and

1. 12 U.S.C. § 3105(d).
2. 12 U.S.C. § 611 et seq.
3. Unless otherwise indicated, data are as of December 31, 2009.
4. Bolivar owns 9.94 percent of Bank's outstanding shares directly and is the parent company of the bank's largest direct shareholders, Inversiones Financieras Bolivar, S.A.S. and Inversora Anagrama, S.A.S., each of which owns 17.29 percent of Bank's outstanding shares, as well as other direct and indirect shareholders within the Bolivar group of companies. The Fundación Universidad Externado de Colombia, a nonprofit foundation that operates the Universidad Externado de Colombia, an institution of higher education located in Bogotá is the ultimate parent company of Bolivar, owning 26 percent of Bolivar's shares.

securities brokerage services through its subsidiaries. In addition, Bank has operations in the United States through Bancafé and in Panama through a wholly owned bank, Bancafé Panama S.A., Panama City.[5] Bank and its parent companies are qualifying foreign banking organizations under Regulation K.[6]

Bank proposes to establish the branch as a means of continuing and expanding the international banking business currently conducted by Bancafé. Bank intends to use the branch to provide products and services currently offered by Bancafé to a larger customer base. In particular, Bank believes that the proposed branch will enhance its ability to serve the banking needs of the Colombian community in the Miami area and to service international business associated with Colombia. After the establishment of the branch and the transfer of the existing business of Bancafé to the branch, Bancafé would voluntarily liquidate.[7]

Under the IBA and Regulation K, in acting on an application by a foreign bank to establish a branch, the Board must consider whether the foreign bank (1) engages directly in the business of banking outside of the United States; (2) has furnished to the Board the information it needs to assess the application adequately; and (3) is subject to comprehensive supervision on a consolidated basis by its home-country supervisor.[8] The Board may also take into account additional standards as set forth in the IBA and Regulation K.[9]

The IBA includes a limited exception to the general requirement relating to comprehensive, consolidated supervision.[10] This exception provides that, if the Board is unable to find that a foreign bank seeking to establish a branch, agency, or commercial lending company is subject to comprehensive supervision or regulation on a consolidated basis by the appropriate authorities in its home country, the Board may nevertheless approve an application by such foreign bank, provided (i) the appropriate authorities in the home country of the foreign bank are actively working to establish arrangements for the consolidated supervision of such bank and (ii) all other factors are consistent with approval. In deciding whether to exercise its discretion to approve an application under this exception, the Board shall also consider whether the foreign bank has adopted and implemented procedures to combat money laundering.[11] The Board also may take into account whether the home country of the foreign bank is developing a legal regime to address money laundering or is participating in multilateral efforts to combat money laundering.[12]

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 Colombia, that those banks' home-country authorities were working to establish arrangements for the consolidated supervision of the banks.[13] Bank is supervised by the Colombian Superintendency of Finance (''Superintendency'') on substantially the same terms and conditions as those other banks.

The Colombian government has taken a number of significant steps to combat money laundering. Colombia has enacted legislation to prevent money laundering and has established a regulatory infrastructure to assist in this effort. Colombia has established a Financial Information and Analysis Unit in the Ministry of Finance, which is responsible for gathering and centralizing information from public and private entities in Colombia, as well as analyzing such information. In addition, the Superintendency has issued circulars that require financial institutions to establish systems for the prevention of money laundering.

Colombia participates in international fora that address the issues of asset forfeiture and the prevention of money laundering. Colombia is a party to the 1988 U.N. Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (the ''Convention''), and the United States has certified that Colombia has taken adequate measures to achieve full compliance with the goals and objectives of the Convention. Colombia also has signed the U.N. Convention against Transnational Organized Crime and is a member of the Organization of American States Inter-American Drug Abuse Control Commission Experts Group to Control Money Laundering. Colombia is not a member of the Financial Action Task Force (''FATF''), although Bank has taken into account FATF's recommendations in developing manuals, internal procedures, and training courses.

Bank has taken measures to ensure compliance with Colombian law and regulations, including implementing policies and procedures related to ''know-your-customer'' practices, suspicious transaction reporting, record keeping, and employee training.[14] An internal central compliance unit monitors Bank's adherence to these policies and

5. Bank acquired both Bancafé and Bancafé Panama S.A. as part of its acquisition of Granbanco S.A., Bogotá in 2007.

6. 12 CFR 211.23(a).

7. 12 CFR 211.7.

8. 12 U.S.C. § 3105(d)(2); 12 CFR 211.24(c)(1). In assessing this standard, the Board considers, among other factors, the extent to which the home-country supervisors (i) ensure 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; and (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.

9. 12 U.S.C. § 3105(d)(3)–(4); 12 CFR 211.24(c)(2)–(3).

10. 12 U.S.C. § 3105(d)(6).

11. 12 U.S.C. § 3105(d)(6)(B).

12. *Id.*

13. *Bancolombia S.A.*, 89 *Federal Reserve Bulletin* 234 (2003); *Banco de Bogotá S.A.*, 87 *Federal Reserve Bulletin* 552 (2001).

14. Compliance is mandatory for all offices of the bank, its affiliates, and representative offices.

procedures. In addition, Colombia enacted laws in 2000 and 2006 that provide for the detection, prevention, investigation, and punishment of terrorist financing activities. Further, the Superintendency's predecessor organization issued regulations in 2002 that emphasized financial institutions' obligation to adopt all necessary and effective control mechanisms to avoid being used as a conduit for financing terrorism.

Based on all the facts of record, the Board has determined that Bank's home-country authorities are actively working to establish arrangements for the consolidated supervision of Bank and that considerations relating to the steps taken by Bank and its home country to combat money laundering are consistent with approval under this exemption.

The Board has also taken into account the additional standards set forth in section 7 of the IBA and Regulation K.[15] The Superintendency has no objection to the establishment of the proposed branch.

Bank must comply with the minimum capital standards of the Basel Capital Accord (''Accord''), as implemented by Colombia. Bank's capital is in excess of the minimum levels that would be required by the Accord and is considered equivalent to the capital levels that would be required of a U.S. banking organization. Managerial and other financial resources of Bank also are consistent with approval, and Bank appears to have the experience and capacity to support the proposed branch. Bank has established controls and procedures for the proposed branch to ensure compliance with U.S. law and for its operations in general.

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 parent companies 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 parent companies 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 information. In addition, subject to certain conditions, the Superintendency 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 conditions described below, the Board has determined that Bank has provided adequate assurances of access to any necessary information that the Board may request.

On the basis of the foregoing and all the facts of record, Bank's application to establish a branch is hereby approved. 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 Bank to terminate any of its direct or indirect activities in the United States. Approval of this application also is specifically conditioned on Bank's compliance with the conditions imposed in this order and the commitments made to the Board in connection with this application.[16]

By order of the Board of Governors, effective September 7, 2010.

Voting for this action: Chairman Bernanke and Governors Warsh, Duke, and Tarullo.

Robert deV. Frierson
Deputy Secretary of the Board

15. *See* 12 U.S.C. § 3105(d)(3)–(4); 12 CFR 211.24(c)(2). These standards include (i) whether the bank's home-country supervisor has consented to the establishment of the office; (ii) the financial and managerial resources of the bank; (iii) whether the bank has procedures to combat money laundering, whether there is a legal regime in place in the home country to address money laundering, and whether the home country is participating in multilateral efforts to combat money laundering; (iv) whether the appropriate supervisors in the home country may share information on the bank's operations with the Board; (v) whether the bank and its U.S. affiliates are in compliance with U.S. law; (vi) the needs of the community; and (vii) the bank's record of operation.

16. The Board's authority to approve the branch parallels the continuing authority of the state of Florida to license offices of a foreign bank. The Board's approval of this application does not supplant the authority of the state of Florida or its agent, the Florida Office of Financial Regulation, to license Bank's Florida office in accordance with any terms or conditions that it may impose.

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