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Earnings data from FCA

Afford participants chance for comparison

The Functional Cost Accounting (FCA) program was established by the Federal Reserve System in 1957 as a management aid for member banks.

Through the program, Reserve Banks and participating member banks, together, develop uniform income and cost data. The uniform data afford banks an opportunity to compare their

own performance in various areas with average data for participating banks of similar size and with similar amounts of activity in each function.

In recent years, about 50 Eighth District banks have participated in the program. Ninety district banks have said they intend to participate next year.

Assets of small banks yield higher earnings

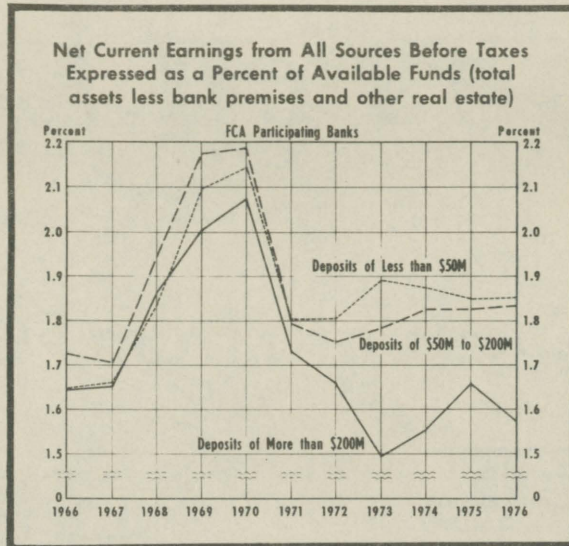
Although FCA was designed primarily as a service to the individual banks that choose to participate, and not as a research program, the annual FCA National Averages Report contains considerable data of general interest.

Of all the data in the FCA averages report, those of greatest interest, perhaps, are the net earnings figures. In the 1976 report, average net current earnings before taxes, expressed as a percent of available funds (total assets less bank premises and other real estate) for participating banks with deposits of less

than \$50 million were 1.853 percent. The medium-size banks (deposits between \$50 and \$200 million) did almost as well at 1.834 percent, while the average for the over \$200 million banks was somewhat lower at 1.575 percent. The accompanying chart illustrates the ten-year trend in net current earnings for the three size categories.

Salary and fringe benefit expenses reported in the 1976 report were somewhat lower for the small banks than for the large banks, but in all other areas, expenses were higher for the small banks. However, the small banks

Net Current Earnings from All Sources Before Taxes
Expressed as a Percent of Available Funds (total
assets less bank premises and other real estate)



enjoyed a higher yield than did the larger banks on virtually every type of earning asset. Also, the small banks held a larger percentage of their earning assets in loans rather than in investments

and, of course, loans earned a better rate of return than did investments.

Finally, a smaller portion of the assets of the small banks were non-earning. □

Flood insurance amendment

Affects communities not in program

An amendment to the recently enacted Housing and Community Development Bill removes the statutory prohibition against making loans secured by real property located in flood hazard areas in communities that have refused

to participate in or failed to qualify for the national flood insurance program.

However, few communities in the Eighth Federal Reserve District have either refused to participate or failed to qualify.

Acts established requirements

The National Flood Insurance Act of 1968 and the Flood Disaster Protection Act of

1973 established the national flood insurance program and created several requirements for fi-

financial institutions that provide "federal or federally-related financial assistance." Federally-related financial assistance was defined to include "conventional

construction and mortgage loans from federally insured, regulated, supervised or approved lending institutions." Thus, nearly all lenders are affected.

Two primary requirements

Provisions of the National Flood Insurance and Flood Disaster Protection Acts affect lenders making loans in communities HUD has identified as flood-prone. A flood-prone community is a community that encompasses a HUD-defined "area of special flood hazard." When a loan is to be secured by improved real property located in an "area of special flood hazard":

1. The lender must require flood insurance as a condition of making, extending, renewing or increasing the loan, if flood insurance is available in the community through the national flood insurance program. An im-

portant exception occurs when the property in question is residential property occupied prior to March 1, 1976, or occupied before or during the first year in which the area was identified as a flood hazard area.

2. The lender has been prohibited from making the loan if flood insurance has not been available through the program because the community chose not to participate in or failed to qualify for the program. The amendment to the Housing and Community Development Bill mentioned above removes the statutory basis for this second requirement.

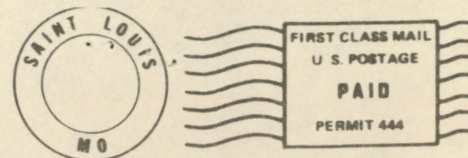
Flood area maps

In either case, the lender's primary problem is determining whether the property in question is located in a flood hazard area. Maps showing flood hazard areas are available through servicing companies working under contract to HUD's Federal Insurance Administration. Since an "identified" flood-prone community is defined as a community for which a map of flood hazard areas has been published, if no map exists, no obligation for lenders exists.

Early in the program, lenders encountered some delays in

obtaining maps. Federal Insurance Administration officials say distribution procedures have been improved and no such problems should now be encountered when maps are ordered through servicing companies. Also, once a lender obtains a map of a given community through a servicing company, the lender should automatically receive updated editions of the map as they are published.

All flood insurance requirements pertain also to loans secured by mobile homes located or to be located in flood areas. □



RETURN POSTAGE GUARANTEED

FIRST CLASS MAIL

The Fed Letter is published by the Federal Reserve Bank of St. Louis to help Eighth Federal Reserve District bankers keep informed on topics of importance to the banking industry.

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Tips on consumer regulations

Early withdrawal statement

In print ads mentioning certificates of deposit, some banks are not including a statement regarding the penalty for early withdrawal that conforms with Regulation Q.

Regulation Q (Section 217.6(e)) permits the use, in broadcast ads, of a brief statement such as the following:

“Substantial interest penalty is required for early withdrawal.”

However, for print ads, a

more detailed statement is required. The Regulation suggests the following formulation:

“Federal law and regulation prohibit the payment of a time deposit prior to maturity unless three months of the interest thereon is forfeited and interest on the amount withdrawn is reduced to the passbook rate.”

Some banks are using, in print ads, the shorter statement intended for use in broadcast ads.

Dealer paper liability

Dealer paper should be carefully checked to insure that Regulation Z disclosures have been made properly. When a bank

acquires a note, it may become liable for Regulation Z violations that occurred in the credit transaction.

Corporate savings limit

Since the balance in a corporate savings account may not exceed \$150,000, interest payments that would cause the balance to exceed that amount

may not be credited to the savings account. Instead, they may be paid directly to the corporation or deposited in some account other than a savings account.