THE FEDERAL RESERVE BANK of ST. LOUIS

January 1993

Supervisory News and Views for the Eighth District

SUPERVISORY ISSUES

Call Report Changes to Take Effect March 31

Under an interagency policy statement adopted in May 1992, federal banking agencies agreed to announce changes to the Reports of Condition and Income (Call Report) before the beginning of the year in which the revisions take effect. To comply with the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), several changes have been made to the Call Report. The changes affect several existing schedules and apply to all four reporting forms (FFIEC 031, 032, 033 and 034). Changes that take effect with the March 31, 1993, Call Report include the following:

- Schedule RC-E will be modified to collect information on "preferred deposits." In addition, the definition of brokered deposits on Schedule RC-E will be modified to conform with the definition of "deposit broker" contained in Section 29 (g) of the Federal Deposit Insurance Act. The definition of "deposit broker" is being modified to conform with new limits on brokered deposits in FDICIA.
- Schedule RC-F will incorporate a new item for "deferred tax assets," such as certain tax carry forward

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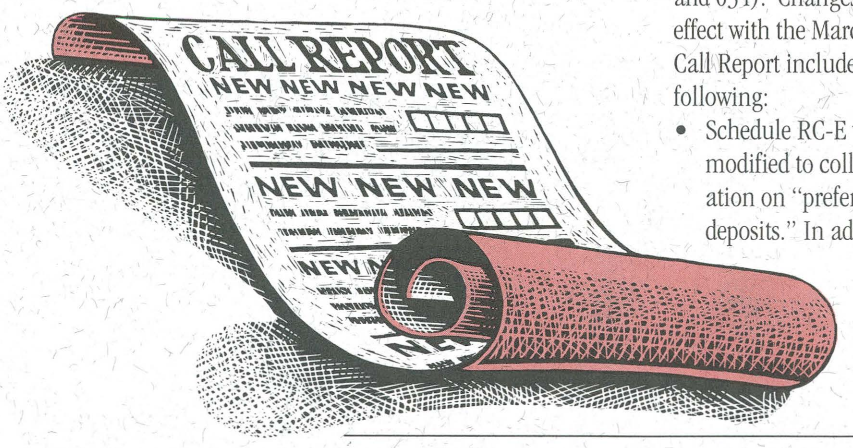

Tips for Preparing HMDA Data

With the increasing emphasis on Home Mortgage Disclosure Act (HMDA) reporting, it is essential that all institutions' HMDA data are accurate. With this in mind, the following tips are designed to help in filing accurate HMDA data.

1992 Reporting

Every lending institution's 1992 HMDA data are due to its applicable federal regulator by March 1, 1993. When submitting the 1992 Loan/Application Register (LAR), verify the following:

- That 1990 census tract information was used to identify and code the property location
- That the names or social security numbers of borrowers and applicants are not used
- That income is reported as the gross annual income used in the credit decision
- That the contact name and mailing address listed is accurate because it is used to mail the HMDA Disclosure Statement.

1993 Reporting - Regulation C Revisions

When recording 1993 HMDA data, please keep in mind the recent changes to

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Call Reports

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benefits, that cannot be used to meet regulatory capital requirements.

- Schedule RC-L will be modified with a new item to collect "all other off-balance sheet assets."
- Information collected on "extensions of credit by the reporting bank to its executive officers, principal shareholders, and their related interests" on schedule RC-M will be expanded to include "directors and their related interests." In addition, schedule RC-M will be modified to collect information on intangibles that are "grandfathered" to count toward regulatory capital requirements even though new rules disallow them.
- To better reflect the risk inherent in an institution's loan portfolio, schedule RC-N will be modified to collect information on loans that are past due 30 days or more or are in nonaccrual status but are wholly or partially guaranteed by the U.S. government or a U.S. government agency.
- Schedule RC-O will be modified with a new item for "deposits in lifeline accounts." Although this item will be added to the report forms for March 31, 1993, banks are not required to report this item until the Federal Reserve System and FDIC establish minimum requirements for lifeline accounts. Schedule RC-O will also be modified with a new memorandum item to gather information on "estimated uninsured deposits (in domestic offices) of the bank." This change will make the schedule comply with section 141(c) of FDICIA.

Some of the reporting changes were amended to reflect public comments received.

The following change will take effect with the June 30, 1993, Call Report:

- Schedule RC-C will be modified with a new Part II to collect data on loans to small businesses and small farms. This data will be reported annually for loans outstanding as of June 30. In general, banks will be required to report information on the number and dollar amount outstanding of (a) nonfarm, nonresidential real estate loans and commercial loans in the following categories: original loan/line of credit of $100,000 or less, more than $100,000 through $250,000, and more than $250,000 through $1,000,000; and (b) agricultural real estate and agricultural loans in the following categories: original loans of $100,000 or less, more than $100,000 through $250,000, and more than $250,000 through $500,000.

In developing the requirements for reporting data on loans to small businesses and small farms, the Federal Register published proposed reporting requirements on small business and small farm lending for a 30-day public comment period on May 20, 1992. The FFIEC received 575 letters in response to its request for public comments, and some of the reporting changes have been amended to reflect these comments.

For more information regarding upcoming changes, refer to the Federal Register notice published Nov. 16, 1992.

HMDA Tips

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Regulation C, which were published in the Federal Register on Dec. 2, 1992. The amended rule revises the instructions for reporting loan applications received through a loan broker or correspondent. Loans approved and subsequently acquired according to a preclosing arrangement should be reported as originations (regardless of whether they closed in your institution's name).

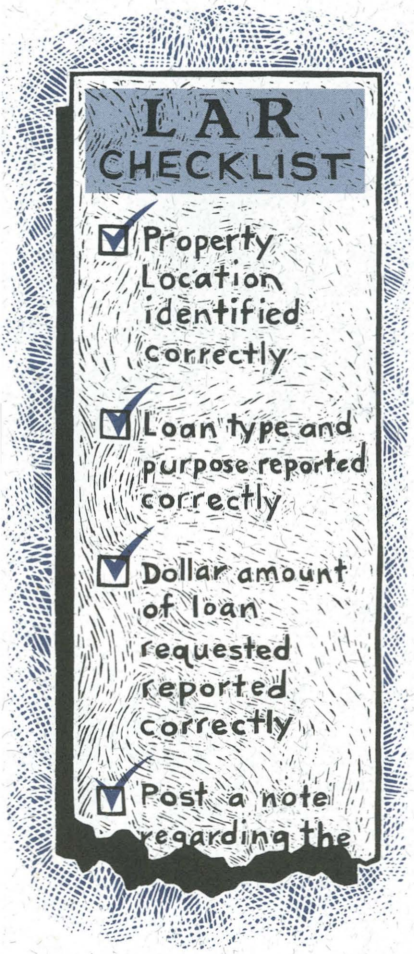
Regulation C was also amended to expand coverage of mortgage companies. The rule requires a mortgage company with an office in a metropolitan area to disclose data about home lending activity if its assets exceeded $10 million or if the company made 100 or more home purchase loans in the preceding calendar year.

Data Entry PC Software

Mortgage lenders subject to the reporting requirements of Regulation C are expected to report their HMDA data in machine-readable format. Experience clearly indicates that electronic filing not only is more efficient, but also improves data quality. Built-in edits further verify data for correct format, accuracy and completeness.

To facilitate electronic reporting, a PC software program was developed jointly by five federal regulatory agencies (FRS, OCC, FDIC, NCUA, and HUD). The HMDA Data Entry System will help institutions manage the ongoing status of loan applications and will ultimately expedite the processing of disclosure and aggregate reports. The software was scheduled for distribution to institutions in mid-January. If you have not yet received the package, please contact your federal regulator.

Examiners to Emphasize Accurate HMDA Data in 1993



With mortgage lending disparities making national headlines, examiners are placing renewed emphasis on accurate HMDA data reporting. It is not unusual for examiners to find inconsistencies in what is reported on the bank's Loan/Application Register (LAR) and what is reported on the actual loan application, note or credit denial notice. In addition to reviewing HMDA data for overall accuracy, examiners will review loan applications that are reported as "withdrawn by the applicant and closed for incompleteness."

Based on recent examinations, the following list of common HMDA violations was created:

- Filing a report late.
- Failing to report home improvement loans because they are included in the

Federal regulators may require banks to resubmit HMDA LARs depending on how many violations are found. Resubmitting a HMDA LAR is a time-consuming process that can be prevented easily.

  installment instead of the real estate loan portfolio.
- Reporting loans that, although secured by real estate, are not used for the purchase or refinancing of a home or home improvement.
- Failing to document the race or national origin, sex and income of the applicant.
- Identifying incorrectly the property location to which the loan application relates.
- Reporting incorrectly the type of action taken and the date of the loan application. The application date should be recorded as the actual date a loan application is received, not the date all necessary documentation is received.
- Reporting incorrectly the loan type and purpose.
- Reporting incorrectly the dollar amount of the loan requested.
- Failing to post a notice regarding the availability of the HMDA Disclosure Statement.
- Reporting incorrectly the type of entity purchasing the loan.

These violations commonly result from insufficient training and inadequate procedures for data collection and data verification. Federal regulators may require banks to resubmit HMDA LARs depending on how many violations are found. Resubmitting a HMDA LAR is a time-consuming process that can be prevented easily. With proper procedures in place, compiling HMDA LARs can be simplified. The followingtips should help:

- Make certain that employees know the requirements of Regulation C.
- Establish procedures to ensure that loan officers collect and record required information at the same time they process loan applications.
- Establish periodic reviews to verify HMDA LAR information.
- Keep the LARs up to date.

Many sources are available to help report HMDA data accurately.

- Automate HMDA data collection and use the public edits developed by the FFIEC.

Remember that many sources are available to help report HMDA data accurately. The instructions to Regulation C and *A Guide to HMDA Reporting: Getting it Right!* are two valuable sources.

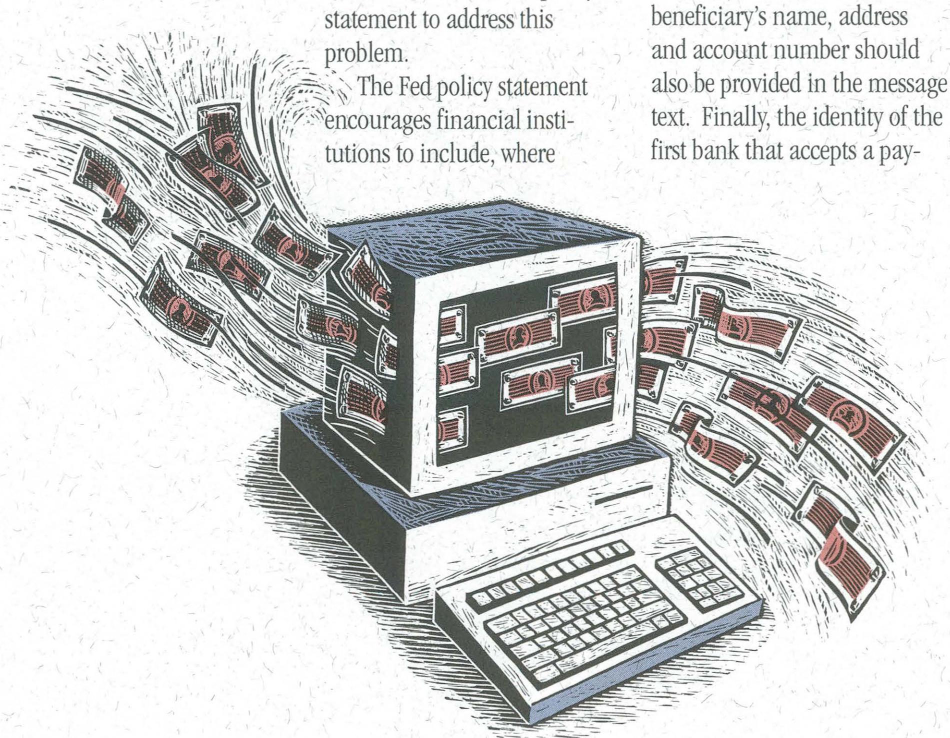
Review HMDA data carefully before submitting the information to your regulator. It is extremely important that all HMDA data are accurate, especially con-sidering the possibility of civil money penalties for report- ing violations. Please do not hesitate to contact your regulator for help in meeting the reporting requirements of Regulation C.

Fed Addresses Money Laundering

The law enforcement community both within the United States and abroad has become increasingly concerned about money laundering through funds transfer systems. On Dec. 23, 1992, on the recommendation of the Federal Financial Institutions Examination Council, the Federal Reserve Board issued a policy statement to address this problem.

The Fed policy statement encourages financial institutions to include, where practical, complete information on the sender and recipient of large payment orders over any funds transfer system, including Fedwire, CHIPS, SWIFT, and any proprietary networks. The statement recommends that every payment order include the name, address and account number of the person who initiated the first payment order in the funds transfer (the originator). If available, the beneficiary's name, address and account number should also be provided in the message text. Finally, the identity of the first bank that accepts a payment order from a nonbank should be noted and retained through all subsequent processing of the funds transfer.

CHIPS and SWIFT have recently issued statements encouraging their participants to include this information in funds transfers processed through their systems. The Fedwire format, however, limits the amount of information that can be included in a Fedwire funds transfer. Until changes in the Fedwire format are implemented, the Board encourages originating banks to ensure that as much information on the non-bank originator, beneficiary, and any instructing bank is included in each Fedwire funds transfer without excluding information necessary for payment processing.



HUD Amends Regulation X; RESPA Change to Come

The Department of Housing and Urban Development's (HUD) Regulation X was recently amended, and additional amendments to reflect changes to the Real Estate Settlement Procedures Act (RESPA) will be forthcoming.

Effective Dec. 2, 1992, Regulation X was revised to expand RESPA's coverage of all first-lien mortgages, regardless of whether a transaction involves the transfer of title. Therefore all provisions of Regulation X now apply to refinancing home loans, as well as to home purchases.

Additional amendments regarding coverage beyond first-lien mortgages will reflect changes to RESPA passed by Congress in October 1992. The effective date of these changes, however, has caused confusion. Although the official effective date of these amendments, which were part of the Housing and Community Development Act of 1992, is Oct. 28, 1992, Congress gave HUD 180 days from the statute's passage to implement changes to Regulation X.

To clarify the discrepancy between the effective date of the statute and the date for implementing the rules, HUD has said that the RESPA amendments will not become effective until HUD issues the additional regulations needed to implement the amendments covering junior-lien mortgages.

Bank Performance

Fed Rates Most District Banks "Well Capitalized"

During much of 1992, bankers and banking regulators focused on preparation for compliance with the Federal Deposit Insurance Corporation Improvement Act (FDICIA). This legislation requires that federal bank supervisors place each institution for which they are responsible into one of five zones based on Sept. 30, 1992, Call Report data. The zones range from "well capitalized" to "critically undercapitalized." Banks falling in the lowest three zones, indicating some form of undercapitalization, are subject to more scrutiny and review from regulators.

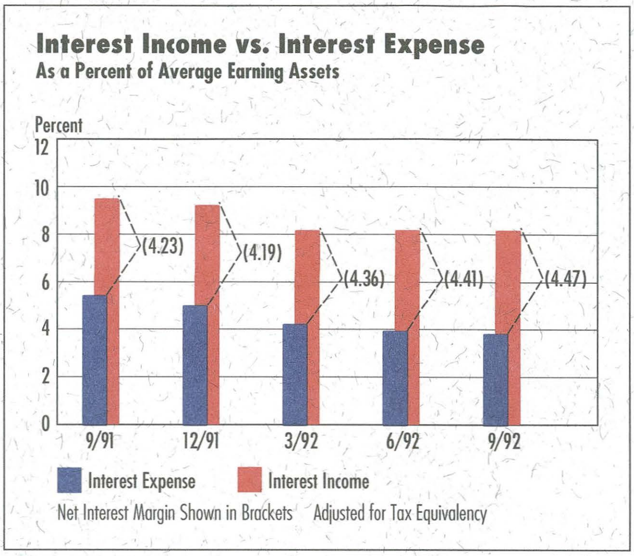
The following ratios are calculated for banks: leverage (tangible equity/total assets), tier 1 to risk-weighted assets, and total capital to risk-weighted assets. To be rated well capitalized, an institution must maintain these ratios at least 5 percent, 6 percent, and 10 percent, respectively.

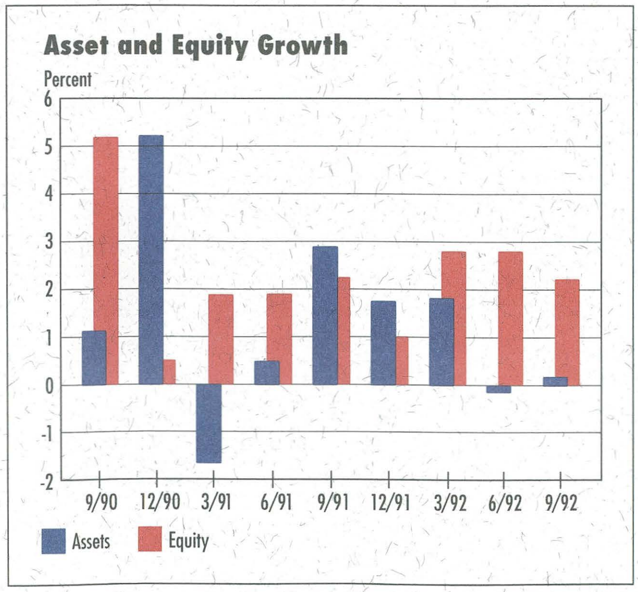
Based on third quarter 1992 data, only 12 District banks fall below the well capitalized category; all but one of these banks are categorized as adequately capitalized. These banks represent 1 percent of all District banks and less than 5 percent of District banking assets. More important, no District banks are rated in the lowest zone, "critically undercapitalized."

Third quarter 1992 District banking data reflect both this strength and continuing equity growth. Aggregate annualized bank equity growth for 1992 through the third quarter is 8 percent, whereas year-to-date asset growth is only 2 percent. A review of asset quality and earnings ratios indicates continuing improvement in all performance measures.

Specifically, the return on average assets (ROAA) and the net interest margin both increased for the third consecutive quarter to 1.17 percent and 4.47 percent, respectively. Although the ROAA reflects primarily interest income, each quarter included some securities gains. As of Sept. 30, 1992, year-to-date securities gains constituted 8 percent of net income.

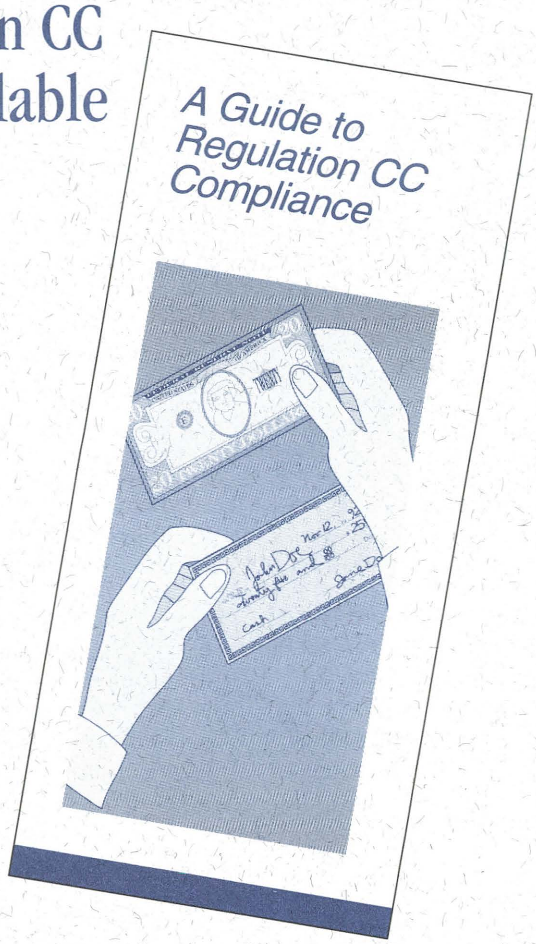
Overall, the consistency with which performance ratios have improved during the year suggests that fourth quarter results will confirm that 1992 was a good year for District banks.





New Regulation CC Brochure Available

A new brochure on Regulation CC, recently developed by the Federal Reserve Board of Governors, is now available. The brochure covers the five most common Regulation CC violations cited by examiners and provides detailed information on funds availability. If you would like a copy of the brochure, please call Debbie Dawe at 1-800-333-0810, extension 8809.



A Y6 Reminder:

The Federal Reserve Bank of St. Louis must receive the Annual Report of Bank Holding Companies (FR Y-6) from all Eighth District bank holding companies no later than March 31, 1993. Under the new Reports Monitoring Program, no extensions will be granted.

Foreign Exchange Restrictions

If you conduct business with eastern European countries, you should be aware that some of these countries may have significant foreign exchange restrictions affecting lending, borrowing or depositing relationships. Additionally, the foreign exchange regulations of these countries are likely to change periodically.

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