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<td>Requested date:</td>
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<td>21-January-2010</td>
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| Source of document:     | Office of the Comptroller of the Currency  
Disclosure Officer  
Washington, DC 20219  
Fax: (202) 874-5274  
Online FOIA form:  
https://appsec.occ.gov/publicaccesslink/palMain.aspx |
| Note:                   | Included are the eleventh, twelfth, and thirteenth reports to congress dated April 11, 2007, April 4, 2008, and June 25, 2009 respectively, files jointly by the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, and Office of Thrift Supervision as required by Section 305 of the Riegle Community Development and Regulatory Improvement Act. |
This is in response to your Freedom of Information Act request dated November 14, 2009, received in my office on November 24, 2009.

You requested a copy of each report produced for Congress by the Comptroller of the Currency during the past three years that are not posted on the OCC public internet website.

Your request has been granted. Materials relevant to your request are enclosed.

Sincerely yours,

Pamela F. Douglas
Pamela F. Douglas, 202-874-5022
Senior FOIA Specialist
Disclosure Services
Communications Division
2010-00107-F
April 11, 2007

The Honorable Barney Frank
Chairman
Committee on Financial Services
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

The Board of Governors of the Federal Reserve System (Federal Reserve Board), the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS) (collectively, the agencies) are submitting this joint report to Congress as required by Section 305 of the Riegle Community Development and Regulatory Improvement Act. This is the eleventh interagency report submitted under that section. The agencies submitted the tenth report to Congress in March 2006.

The agencies remain committed to the mandate of Section 305 to improve the coordination of examinations and supervision of institutions that are subject to multiple regulators. The basic principles governing these activities are set forth in the Interagency Policy Statement on Examination Coordination, issued in 1993. As indicated in previous Section 305 reports, the agencies place high priority on working together to identify and reduce regulatory burden and on coordinating supervisory activities, not only with each other and state bank and thrift supervisors, but also with United States securities, state insurance regulators and foreign financial institution supervisors.

Mechanisms to Coordinate Supervision

The agencies, in conjunction with state bank and thrift supervisors, have a number of formal and informal mechanisms to foster continued coordination in examining and supervising banking organizations.

Federal Financial Institutions Examination Council

The Federal Financial Institutions Examination Council (FFIEC) is a legislatively established body responsible for promoting uniform supervisory policies and establishing uniform principles, standards, and report forms for examinations of depository institutions. In 2006, the members of the FFIEC were the agencies and the National Credit Union Administration (NCUA). As the result of recent legislation, the Chair of the Conference of State Bank Supervisors' FFIEC State Liaison Committee was added as
sixth member of the FFIEC. Through its State Liaison Committee, the FFIEC serves as
an important forum for dialogue between Federal and state supervisory agencies.

To foster interagency cooperation, the FFIEC has established interagency task
forces on consumer compliance, examiner education, information sharing, regulatory
reports, surveillance systems, and supervision. These task forces share information and
coordinate activities on a wide range of supervisory issues.

Joint Supervisory Training Courses and Conferences

The FFIEC's Examiner Education Office offers a variety of schools, conferences,
and workshops for the agencies' examiners. These courses are also made available to
examiners from the state banking agencies. A listing of course offerings and schedules is
available on the FFIEC's website at www.ffiec.gov/exam/education.htm. Offerings in
2006 included:

- **Anti-Money Laundering (AML) Workshops**, which allow examiners to maintain
  up-to-date knowledge of laws and regulations, including the USA PATRIOT Act,
  and significant trends related to AML and countering terrorist financing.
  Seventeen sessions were held in 2006 and featured guest speakers from the
  Financial Crimes Enforcement Network (FinCEN), the Federal Bureau of
  Investigation, and Office of Foreign Assets Control (OFAC).
- **Financial Crimes Seminars** that discussed current issues within the banking
  industry regarding blanket bond insurance, mortgage fraud, forensic accounting,
  evidence collection, and documentation. Three sessions were held in 2006.
- **Two International Banking Schools**, attended by approximately 50 examiners
  from the agencies. The schools, which enhance examiners' knowledge of
  international banking activities, covered internationally relevant topics including
  foreign exchange risks and their management, as well as risk management of
  trade finance activities.
- **An International Banking Conference**, attended by over 60 senior examiners from
  the agencies. The conference is held bi-annually and the 2006 conference
  included presentations on emerging issues in the international market; a bankers'
  perspective on international issues; a supervisors' panel on issues in Europe, Asia,
  and Latin America; industry and rating agency representatives speaking on
  enterprise-wide risk management; and other experts in the fields of outsourcing
  and anti-money laundering.
- **The annual Information Technology (IT) Conference**, which explores emerging
  risks and industry best practices and was attended by 220 examiners. The
  conference focused on a variety of IT security and risk management issues,
  including off-shore outsourcing, protecting customer information through shared
  assessment, authentication guidance, response program guidance, and business
  continuity planning – disaster recovery.
- **An annual Asset Management Forum** for examiners and specialists involved in
  supervising bank trust and asset management activities. The 2006 forum
  discussed Bank Secrecy Act (BSA)/AML, risk management, conflicts of interest,
personal trust, employee benefit account administration, investment products and services, ethics, and operational controls.

- Two Payments System Risk Conferences that in 2006 addressed the risks involved in emerging and existing payment systems, the means used to minimize these risks, and the methods of evaluating these risks in the examination process. Approximately 113 field examiners and regulatory agency staff attended the two conferences.

The agencies sponsor other conferences to discuss emerging supervisory concerns. For example, the agencies' chief accountants sponsor an annual conference to discuss emerging accounting and auditing issues with the agencies' examiners and accounting staff. The 2006 conference, attended by approximately 350 participants, included discussions on accounting for derivatives and fair value accounting, as well as updates from the Securities and Exchange Commission (SEC) and the Financial Accounting Standards Board (FASB).

In April 2006, the first Interagency Consumer Affairs Conference was attended by approximately 140 participants. The agencies convened this conference to discuss financial institution regulatory issues affecting consumers, to determine more effective means for sharing complaint information among the agencies, and to identify best practices for enhancing the agencies' interaction with the public. The agencies have agreed to hold such conferences regularly to discuss issues that are common among the agencies, and agency representatives have begun planning the 2007 conference.

An interagency bank supervision conference, attended by approximately 130 senior staff members of the agencies, was held in November 2006 to discuss current supervisory challenges. Topics included credit risk, the coordination of compliance and safety and soundness activities, and information security and business continuity issues.

Common Reporting Forms and Examination Tools

The agencies routinely collaborate on and adopt common reporting forms and examination tools, with a goal of streamlining and reducing burden where possible. For example, the agencies use interagency forms with respect to filings under the Bank Merger Act and the Change in Bank Control Act. In addition, the FDIC, OCC, and OTS have adopted a common form for granting deposit insurance and federal charters.

The FDIC, Federal Reserve Board, and state bank supervisors have an automated examination support system that includes a common risk-focused supervision framework and loan review tool. Similarly, the agencies, in partnership with the Conference of State Bank Supervisors (CSBS), have developed a standardized electronic loan file format that examiners can use to facilitate community and mid-size bank safety and soundness examinations.

Supervisory Information Sharing and Coordination

To the extent possible, the agencies build upon each other's supervisory reviews and databases to minimize regulatory burden. The agencies routinely share reports of
examination, inspection reports, and other agency-institution communications. The agencies also provide each other with access to their organizations’ structure, financial, and supervisory information. Meetings and discussions take place among the agencies throughout the year, and when appropriate, the agencies hold joint meetings with institutions involving matters of mutual interest. This approach extends to periodic coordinated reviews or examinations where a business activity is conducted across legal entities.

The agencies extensively coordinate their supervision of large, complex entities to reduce duplication of effort and minimize regulatory burden. To ensure this level of coordination is maintained and enhanced as appropriate, the agencies: (1) share institution risk profiles and other supervisory information regarding the entities they supervise; (2) exchange information on proposed examination and supervisory activities for the coming year; and (3) coordinate the planning and execution of those activities to minimize or eliminate any overlap or duplication.

The FFIEC’s Task Force on Information Sharing serves as a vehicle to enhance and improve the exchange of electronic information among the agencies. This group is responsible for establishing principles that protect the privacy, security, and integrity of shared information. It also oversees the development of data management standards to improve consistency and encourages the development of compatible technical architectures among the agencies to ensure that information can be shared efficiently.

The FFIEC’s Task Force on Consumer Compliance oversees the agencies’ collection, processing, and dissemination of information collected pursuant to the Home Mortgage Disclosure Act (HMDA) and Community Reinvestment Act (CRA).

The FDIC, Federal Reserve, and state bank supervisors continue to coordinate their efforts via a protocol for the prudential supervision of state-chartered banks. Under this protocol, the home state supervisor and appropriate Federal regulator coordinate the supervision of interstate state-chartered banks to ensure a risk-focused process and to reduce regulatory burden. The OTS works closely with individual state supervisors to coordinate the supervision and examination of state savings institutions.

Emergency Preparedness and Response

Through the FFIEC’s Task Force on Supervision, the agencies have established a protocol for supervisory communications to be used in emergency situations. This protocol is updated quarterly and tested at least annually with key supervisory personnel to ensure its ongoing effectiveness.

The agencies are members of the Treasury Department’s Financial and Banking Infrastructure Information Committee (FBIIC) and work with FBIIC and other Federal and state agencies to protect the critical infrastructure of the United States financial system. For example, the agencies sponsor qualifying financial institutions for access to the Telecommunications Service Priority Program that provides priority treatment for the restoration or provisioning of telecommunications services in emergencies. The agencies
also approve access for qualifying financial institutions to the Government Emergency Telecommunications Service that permits priority use of the telephone system during emergencies such as occurred in the aftermath of Hurricanes Katrina, Rita, and Wilma.

Throughout 2006, the agencies continued to work with the banking industry to assist institutions, communities and consumers adversely affected by Hurricanes Katrina, Rita, and Wilma. These efforts included waivers of certain real estate appraisal requirements for properties located in specified affected counties; guidance to examiners on evaluating the condition of affected institutions and borrowers; and public service announcements in major U.S. media markets to encourage individuals adversely affected by the hurricanes to contact their lenders to discuss options that may be available to assist them. The agencies sponsored an interagency forum for banks and thrifts in March 2006, titled, *The Future of Banking in the Gulf Coast: Helping Banks and Thrifts Rebuild Communities.* The forum focused on the short-term and long-term challenges facing financial institutions operating in the areas affected by the hurricanes and on ways of helping to meet the needs of the local communities. Principals from each of the agencies participated in the forum, along with senior executives from both large and small financial institutions, community development corporations, and representatives from a number of federal agencies. In June 2006, the agencies, NCUA and the CSBS released a booklet entitled, *Lessons Learned from Hurricane Katrina: Preparing Your Institution for a Catastrophic Event* to assist institutions in assessing their readiness for a catastrophic event.

In March 2006, the agencies jointly issued an industry advisory on *Influenza Pandemic Preparedness.* The FFIEC’s Task Force on Supervision also formed a Pandemic Working Group to help coordinate planning and supervisory efforts that may be needed during such an event. Table top exercises with the Task Force will be conducted during 2007.

**Other Coordinated Supervisory Activities**

Where applicable, the agencies coordinate their supervisory activities related to insurance, securities, and banking businesses with functional regulators, such as the SEC and state insurance regulators. Periodic cross-sector meetings with representatives of the agencies, the SEC, state banking, insurance and securities supervisors, and the Commodity Futures Trading Commission are held to identify areas that may require supervisory attention and coordination. Activities in 2006 included the agencies’ work and consultation with the SEC on the joint proposed rule, published by the SEC and Federal Reserve in December 2006, to implement the bank broker provisions in the Gramm Leach Bliley Act and completion of the joint statement by the agencies and the SEC on complex structured financial transactions that was issued in January 2007. The agencies also continued their work with the Federal Trade Commission to design more effective privacy notices for consumers.

The agencies, together with the Treasury’s FinCEN and OFAC, are fully committed to preventing the inappropriate use of the financial system by criminals and terrorists. Under the auspices of the FFIEC’s BSA/AML Working Group, the agencies,
state bank regulatory authorities, FinCEN, and OFAC collaborated in the development of the FFIEC's BSA/AML Examination Manual, which was released in 2005. In 2006, the agencies in collaboration with FinCEN and OFAC updated the Manual to further clarify supervisory expectations, incorporate new regulatory issuances, and respond to industry requests for additional guidance. In September 2006, the agencies and FinCEN conducted joint, nationwide conference calls for examiners and for bankers to discuss the release of the revised Manual. More than 12,000 individuals participated in these calls. The agencies and FinCEN continued information sharing under the interagency MOU that was finalized in 2005 and, in 2006, the agencies entered into an interagency MOU with OFAC for information sharing.

In addition, the agencies participate in other BSA/AML interagency forums. The Bank Secrecy Act Advisory Group is a public-private partnership devoted to evaluating all BSA matters and exchanging information and recommendations for making the reporting requirements more efficient. Members include representatives from the agencies, FinCEN, Federal and state law enforcement agencies, self-regulatory organizations, some state regulatory agencies, and financial services industries subject to BSA regulation, including trade groups and practitioners representing such industries. Through this partnership, the agencies will continue to conduct outreach to obtain input for future updates of the FFIEC BSA/AML Manual.

**International Supervision Coordination**

The agencies participate on a number of international supervisory groups, including the Basel Committee on Banking Supervision (BCBS) and the Joint Forum of banking, securities, and insurance regulators, which promote more consistent and uniform supervision of internationally active financial services firms.

The agencies also provide training for staff and officials from non-United States supervisory authorities and foreign central banks. During the year, the agencies offered training courses exclusively for foreign supervisory authorities in Washington, DC and in a number of foreign jurisdictions. Agency staff also took part in technical assistance and training missions led by the International Monetary Fund, the World Bank, the Asian Development Bank, the BCBS, and the Financial Stability Institute. This training was concentrated in Latin America, Asia, the Middle East and North Africa, and the former Soviet bloc countries.

In support of the United States Partnership for Financial Excellence in the Middle East and North Africa (MENA), the agencies worked with the United States Treasury Department, the United States State Department, and the United States Agency for International Development to design and deliver training programs aimed at improving banking supervision in the MENA region. The federal banking agencies also supported training activities delivered under the Asia Pacific Economic Cooperation Financial Regulators Training Initiative, which was launched by the United States Treasury Department shortly after the Asian crisis. Administrative and funding support for this initiative is provided by the Asian Development Bank.
Federal and state banking supervisors coordinate the supervision of U.S. operations of foreign banking organizations through the Foreign Banking Organizations Program, which involves extensive interagency information sharing and supervisory collaboration. The agencies also coordinate with numerous foreign regulatory authorities in the supervision of internationally active companies and, when appropriate, jointly enter into multilateral statements of cooperation with foreign bank supervisors. For example, the U.S. agencies are working closely with foreign supervisors to coordinate home/host issues associated with the implementation of the Basel II Capital Accord.

**Formal Joint Examination Programs**

In addition to the coordination mechanisms discussed above, the agencies also have three formal joint examination programs that allow them to leverage and share examination resources and provide consistent supervisory evaluations of activities that often cut across financial institutions.

**Shared National Credit Program**

The Shared National Credit (SNC) program is a joint effort of the FDIC, Federal Reserve Board, OCC, and OTS as an assisting agency to collaborate on reviewing large syndicated loans held by multiple banks. The SNC program reviews selected borrowers using interagency teams to avoid duplicate reviews of the same credit and to ensure consistent treatment. The agencies release to the public aggregate statistical data from the SNC program, which provides a unique perspective on credit quality trends in the banking industry. In 2006, this program covered 7,009 credits totaling $1.9 trillion in credit commitments to 4,833 borrowers.

The agencies implemented an enhanced sampling methodology beginning with the 2003 SNC review process. The goal of this methodology was to promote efficiency and effectiveness through a more focused, risk-based review of SNCs. The immediate impact has been a decrease in the number of facilities selected for examiner review as well as a reduced dollar amount of SNCs reviewed. This has resulted in a significant reduction in the overall cost and burden of the SNC program.

The agencies are continuing their work on a SNC modernization initiative to standardize the SNC data collection process, expand SNC data collected from large reporting institutions, apply advanced credit risk benchmarking techniques for common SNC borrowers/portfolios, and provide reporting banks with feedback on their commonly held SNC portfolios. A Notice for Public Comment on SNC Modernization was published in the Federal Register on December 20, 2004. Final specifications and related procurement and development activities will occur during 2007.

**Multi-Regional Data Processing Service and Shared Application Software Review Programs**

Under the auspices of the FFIEC’s IT Subcommittee of the Task Force on Supervision, the FFIEC member agencies administer two programs designed to leverage their examination and supervisory resources for service providers and mission-critical
software systems and applications. Through the FFIEC's Multi-Regional Data Processing Servicer (MDPS) program, the agencies conduct joint IT examinations of the largest technology service providers. Generally, an organization will be considered for examination under the MDPS program if it processes mission-critical applications for a large number of financial institutions that are regulated by more than one agency or if the organization processes work from a number of data centers located in diverse geographic regions. The agencies coordinate on the scope, timing, and staffing of these examinations, and the resulting examination report is shared with all the member agencies, the examined service provider, and its client financial institutions. In March 2006, the IT Subcommittee sponsored an Interagency MDPS Strategy Conference attended by senior field examiners to further enhance supervisory consistency and cooperation. A similar conference will be held during the first quarter of 2007.

The Shared Application Software Review program provides a mechanism for the agencies to review and share information on mission-critical software systems and applications, such as wire transfers, capital markets, loans, deposits, and general ledger systems that are used by a large number of financial institutions. These reviews help the agencies identify potential systemic risks and provide examiners with information that can reduce time and resources needed to examine mission-critical processing activities at each of the user financial institutions.

Interagency Country Exposure Review Committee (ICERC)

The FDIC, Federal Reserve Board, and OCC formed ICERC in 1979 to ensure consistent treatment of the transfer risk associated with banks' foreign exposures to both public and private sector entities. The OTS joined the ICERC in 2006, as an observing non-voting agency. New York State bank regulators also regularly attend the annual ICERC meeting.

The three agencies have together proposed and are in the process of implementing changes to the review procedures and ICERC rating systems. Such changes maintain strict regulatory attention to areas of transfer risk but now also include discussions of regional and global macro trends that might indicate future geographical areas of risk. ICERC continues to implement the appropriate classification and level of reserves for countries that are in default. ICERC decisions and analytical write-ups are used throughout the agencies to help examination teams in assessing individual banks' cross-border risk assessment models.

Other 2006 Accomplishments

Throughout 2006, the agencies continued their efforts to coordinate examination and supervisory activities and to reduce unnecessary regulatory burden. In addition to those programs and efforts already noted in this report, highlights of the agencies’ other 2006 efforts are outlined below.
Initiatives to Reduce Unnecessary Regulatory Burden and Enhance Efficiency

In 2003, the agencies initiated an interagency project to review their regulations to identify and eliminate those that are outdated, unnecessary, or unduly burdensome on insured depository institutions, pursuant to Section 2222 of the Economic Growth and Regulatory Paperwork Reduction Act of 1996 (EGRPRA). EGRPRA requires the agencies to categorize the regulations, publish the categories for comment, report to Congress on any significant issues raised by the comments, eliminate unnecessary regulations, and analyze whether legislative change is required to reduce burden. The agencies completed publishing their regulations in 2006 for public comment on how they could be amended or simplified and began drafting of the initial EGRPRA Report. The agencies expect to complete and submit the report to Congress in 2007. In conjunction with this work, in 2006 the agencies identified and testified on a variety of statutory changes aimed at reducing regulatory burden on financial institutions. Many of these provisions were included in the 2006 Financial Services Regulatory Relief Act.

Revisions to Risk-Based Capital Standards

The agencies work together closely to discuss and coordinate complex capital rulings, interpretations, and initiatives. During 2006, considerable efforts were devoted to developing proposals for the domestic implementation of Basel II. These efforts included the issuance of the notice of proposed rulemaking (NPR) on Basel II. At the same time, the agencies issued for public comment proposed changes to the market risk rules as well as a request for comment on supplemental supervisory reporting requirements related to Basel II and market risk. The comment period for each of these proposals ended in March 2007.

The agencies continued working on supervisory guidance to provide additional information on the implementation of Basel II for U.S. institutions and plan to publish the guidance for comment in early 2007. Other implementation efforts include various Basel II-related training courses for the agencies’ examiners. These courses are IRB, Quantification of Credit Risk Measurement for Corporate Activities, IRB Quantification of Credit Risk Measurement for Retail Activities, and Basel II Training for AMA Operational Risk. In 2006, over 100 participants from the agencies and SEC attended these courses.

The agencies recognize that the Basel II framework is not appropriate for all banking organizations in the United States. Many of those organizations need meaningful, but simpler, improvements in their risk-based capital requirements to align capital more closely with risk. To address this need, the agencies published for comment in December 2006, an interagency notice of proposed rulemaking for institutions not subject to the Basel II advanced capital framework that would give these institutions the option of either continuing to use the existing Basel I-based capital rule or adopting a more risk sensitive rule, known as Basel IA. The comment period for this proposal ended in March 2007.
Accounting and Audit Initiatives and Guidance

The agencies recognize the importance of high quality accounting and audit standards to the continued safe and sound operations of insured depository institutions and work closely with the SEC, FASB, the American Institute of Certified Public Accountants (AICPA), and the Public Company Accounting Oversight Board (PCAOB) on matters of mutual interest.

In February 2006, the agencies and NCUA issued guidance that addresses safety and soundness concerns that may arise when financial institutions agree to limit their external auditors’ liability. The guidance informs institutions that they should not enter into external audit engagement letters that incorporate unsafe and unsound limit of liability provisions with respect to audits of financial statements and internal controls over financial reporting.

In December 2006, the agencies and NCUA issued a new interagency policy statement on the Allowance for Loan and Lease Losses (ALLL) and supplemental Frequently Asked Questions (FAQs). The policy statement revises and replaces a 1993 policy statement on the ALLL. The revised policy statement updates existing supervisory guidance and outlines expectations for banking organizations and bank examiners related to the development and assessment of the ALLL estimate. The agencies worked closely with the SEC, FASB and PCAOB in developing the guidance to promote a more consistent message to the industry on expectations and policies on the ALLL.

In addition to supervisory guidance, the agencies work together in responding to accounting proposals that may have a significant impact on the banking industry. In April 2006, the agencies submitted a joint comment letter to the FASB on its proposed Statement of Financial Accounting Standards (SFAS No. 157), the Fair Value Option for Financial Assets and Financial Liabilities. The letter discussed concerns about the expansion of the use of fair value accounting to financial assets and liabilities that can not be reliably measured and the recognition of fair value adjustments related to changes in an entity’s own creditworthiness in the valuation of financial liabilities. The letter also recommended that more research be conducted to address these and other concerns related to fair value accounting.

Initiatives to Promote Sound Lending Practices

The agencies issued proposed guidance on nontraditional mortgage products in December 2005, and requested public comment on its contents and applicability. The guidance addressed both risk management and consumer disclosure practices that institutions should employ to effectively assess and manage the risks associated with these “nontraditional” products, such as “interest-only” and “payment-option” adjustable rate mortgage products.

The agencies received numerous comment letters from financial institutions, trade associations, consumer and community organizations, state financial regulatory organizations, and other members of the public. The agencies carefully considered the
comment letters and made a number of changes to the proposed guidance to respond to the commenters’ concerns and to provide additional clarity. The agencies issued final guidance on September 29, 2006 that consisted of two separate documents: the Interagency Guidance on Nontraditional Mortgage Products, and an addendum to the 2005 Interagency Credit Risk Management Guidance for Home Equity Lending, which provides additional guidance on disclosure practices for open-end home equity lines of credit that contain interest-only features. The agencies also published for public comment illustrations of the types of clear and balanced information that creditors can provide to consumers for making informed decisions regarding nontraditional mortgage products. On March 3, 2007, the agencies issued for comment a proposed Statement on Subprime Mortgage Lending to address risks and emerging issues relating to certain adjustable-rate mortgage lending products.

To assist consumers in making informed choices when considering nontraditional mortgage products, the agencies and NCUA also issued “Interest-Only Mortgage Payments and Payment-Option ARMs – Are They for You?” This booklet features a glossary of lending terms, a mortgage shopping worksheet, and a list of additional information sources. The Federal Reserve Board and OTS also updated the Consumer Handbook on Adjustable Rate Mortgages to include information on nontraditional mortgage products. This booklet is given to consumers before they apply for an adjustable rate mortgage to discuss product considerations.

In January 2006, the agencies issued proposed interagency guidance on sound risk management practices for concentrations in commercial real estate lending. Commercial real estate is an area in which some financial institutions have become increasingly concentrated. This trend is particularly evident among small- and medium-sized banks that are facing strong competition in other business lines. While the agencies support banks serving a vital role in their communities by supplying credit for business and real estate development, they are concerned that commercial real estate loan concentrations may expose institutions to unanticipated earnings and capital volatility in the event of adverse changes in commercial real estate markets.

The agencies received a large volume of comments on the proposed guidance and, in response, made changes to the guidance to clarify its purpose and respond to commenters’ concerns. The final guidance, issued jointly by the FDIC, Federal Reserve Board, and OCC, and similar guidance issued by the OTS in December 2006, are intended to help ensure that institutions pursuing a significant commercial real estate lending strategy remain healthy and profitable while continuing to serve the credit needs of their communities.

**Initiatives to Enhance Consumer Disclosures and Safeguards**

Ensuring that consumers have adequate information to make informed financial decisions and that financial institutions safeguard nonpublic customer information are other areas where the agencies closely coordinate their activities. In addition to the guidance on nontraditional mortgage products, described above, the agencies also
continued their work to improve other financial disclosures to consumers. In March 2006, the agencies in conjunction with the NCUA, SEC, and the Federal Trade Commission (FTC) released Evolution of a Prototype Financial Privacy Notice, a report summarizing consumer research commissioned by the agencies as part of their ongoing efforts to develop improved financial privacy notices. This work will continue in 2007.

Identity theft and the accuracy of consumer information reported to and used by credit bureaus continue to be major concerns of consumers, bankers, and the agencies. In March 2006, the agencies, NCUA and the FTC issued for comment an advance notice of proposed rulemaking on section 312 of the Fair and Accurate Credit Transactions Act (FACT Act) regarding guidelines for ensuring the accuracy and integrity of information furnished to consumer reporting agencies. In August 2006, the FTC and Federal Reserve Board issued a joint report to Congress on compliance with the consumer dispute provisions of the Fair Credit Reporting Act (FCRA), pursuant to section 313(b) of the FACT Act. The report found that although most consumer disputes appear to be processed within the statutory timeframe, there is disagreement as to the adequacy of the investigations performed by the consumer reporting agencies and by the furnishers of information. The resulting report recommends no additional administrative or legislative action at this time to amend the dispute process. Rather, the FTC and Federal Reserve Board believe that recent FACT Act provisions intended to enhance the customer dispute process should be given time to take effect. The FTC and Federal Reserve Board will continue to monitor the performance of the dispute process, explore possible enhancements, and make recommendations for action, if appropriate.

In July 2006, the agencies, NCUA, and the FTC issued proposed rules that would require each financial institution and creditor to develop and implement an identity theft prevention program. The proposed rules included guidelines listing patterns, practices and specific forms of activity that should raise a "red flag" signaling a possible risk of identity theft. An updated version of the FFIEC's Information Security booklet was also issued that month to reflect changes in technology and risk mitigation strategies as well as recent revisions related to supervisory guidance.

The agencies and NCUA issued Authentication in an Internet Banking Environment in October 2005 to help strengthen the risk management practices and controls that financial institutions use when processing high risk transactions involving access to customer information or the movement of funds to other parties. In August 2006, the agencies and NCUA issued questions and answers related to this guidance to further the industry's understanding of the agencies' supervisory expectations.

Community Reinvestment Initiatives
The agencies work collaboratively to promote the goals of the Community Reinvestment Act (CRA). In March 2006, the agencies sponsored the 2006 National Community Reinvestment Conference that brought together leading experts to share innovations and practical examples of community development finance.
The Federal Reserve Board, FDIC, and OCC revised their CRA regulations in July 2005, effective September 1, 2005. These changes expanded the geographic areas for which CRA consideration could be achieved, including designated major disaster areas, underserved and distressed nonmetropolitan middle-income areas, and introduced a new CRA examination test for Intermediate Small Banks. To promote consistency in the CRA examination process, the agencies created new examination procedures to be used in Intermediate Small Bank examinations and, in 2006, issued revised procedures for Large Bank, Small Bank, Wholesale/Limited Purpose, and Strategic Plan examinations to incorporate the 2005 regulatory changes. The revisions included:

- The addition of conforming language pertaining to changes in the definition of community development;
- Reference to the consideration of illegal credit practices and affiliate activity; and
- The updating of certain geographic area terminology to ensure consistency with the CRA and its implementing regulations.

To help financial institutions meet their CRA responsibilities, and to increase public understanding regarding the CRA changes, the agencies drafted new Interagency CRA Questions and Answers (Q&As). The new Q&As were released in a proposal in November 2005, and were subject to a 60-day public comment period, ending on January 9, 2006. Upon the closing of the comment period, the agencies reviewed the public comment letters that were submitted by community organizations, individuals, banks, financial institution trade organizations, and state and local governments. The final Q&As were published in the Federal Register for use by examiners, financial institutions, and the public on March 10, 2006.

On April 12, 2006, the OTS joined the other federal banking agencies in revising the CRA definition of “community development.” The OTS also proposed new Q&A guidance to accompany the revised definition of “community development” and published a final version of the guidance in the Federal Register in September 2006. In November 2006, the OTS issued a NPR to align its rule implementing the CRA with that of the other banking agencies. The agencies note that a consistent CRA standard applied to federally regulated institutions will facilitate objective evaluations of CRA performance; ensure accurate assessment of federally regulated institutions within the same market; and permit the public to make reasonable comparison of institutions’ performance. The comment period for the NPR ended on January 24, 2007.

In 2006, the FFIEC approved the posting of data related to distressed and underserved census tracts as defined by the CRA onto the FFIEC website (www.ffiec.gov). The FFIEC incorporated this data into its on-line geocoding system as well as providing it in Excel, PDF, and HTML formats to promote public access.
Conclusion

The agencies are committed to maintaining regulatory and supervisory processes that maximize efficiency, while eliminating unnecessary costs to institutions, maintaining safety and soundness, and safeguarding consumers. We have worked in the past year—and will continue to work—to improve the supervisory process by reducing regulatory burden, promoting consistency, eliminating duplicative activities in the examination process, and promoting greater efficiency in the use of resources. We believe our coordination and streamlining efforts have been successful thus far, and intend to continue exploring ways in which our agencies can work together, leverage each other’s efforts, and ease the regulatory burden on the financial institutions we supervise.

Sincerely,

Randall S. Kroszner, Governor
Board of Governors of the Federal Reserve System

Sheila C. Bair, Chairman
Federal Deposit Insurance Corporation

John C. Dugan
Comptroller of the Currency

John M. Reich
Director
Office of Thrift Supervision

14
The Board of Governors of the Federal Reserve System (Federal Reserve Board), the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS) (collectively, the agencies) are submitting this joint report to Congress as required by Section 305 of the Riegle Community Development and Regulatory Improvement Act. This is the twelfth interagency report submitted under that section. The agencies submitted the eleventh report to Congress in April 2007.

The agencies remain committed to the mandate of Section 305 to improve the coordination of examinations and supervision of institutions that are subject to multiple regulators. The basic principles governing these activities are set forth in the Interagency Policy Statement on Examination Coordination, issued in 1993. As indicated in previous Section 305 reports, the agencies place high priority on working together to identify and reduce regulatory burden and on coordinating supervisory activities, not only with each other and state supervisors, but also with United States securities regulators, state insurance regulators, and foreign financial institution supervisors.

**Mechanisms to Coordinate Supervision**

The agencies, in conjunction with state supervisors, have a number of formal and informal mechanisms to foster continued coordination in examining and supervising banking organizations.

**Federal Financial Institutions Examination Council**

The Federal Financial Institutions Examination Council (FFIEC) is a legislatively established body responsible for promoting uniform supervisory policies and establishing uniform principles, standards, and report forms for examinations of depository institutions. The member agencies of the FFIEC are the agencies and the National Credit Union Administration (NCUA). As the result of legislation in 2006, the Chair of the FFIEC State Liaison Committee serves as a sixth member of the FFIEC. Through its State Liaison
Committee, the FFIEC serves as an important forum for dialogue between federal and state supervisory agencies.

To foster interagency cooperation, the FFIEC has established interagency task forces on consumer compliance, examiner education, information sharing, regulatory reports, surveillance systems, and supervision. These task forces share information and coordinate activities on a wide range of supervisory issues.

**Joint Supervisory Training Courses and Conferences**

The FFIEC’s Examiner Education Office offers a variety of schools, conferences, and workshops for the agencies’ examiners. These courses are also made available to examiners from the state supervisory agencies. A listing of course offerings and schedules is available on the FFIEC’s website at [http://www.ffiec.gov/exam/education.htm](http://www.ffiec.gov/exam/education.htm).

Offerings in 2007 included:

- Anti-Money Laundering (AML) Workshops, which allow examiners to maintain up-to-date knowledge of laws and regulations, including the Bank Secrecy Act (BSA), USA PATRIOT Act, and Office of Foreign Assets Control (OFAC) sanctions programs. Fourteen sessions were held in 2007 and featured guest speakers from the Financial Crimes Enforcement Network (FinCEN), the Federal Bureau of Investigation, and OFAC.
- An Advanced BSA/AML Specialists Conference that is designed to provide continuing education to BSA compliance specialists and focuses on advanced BSA/AML topics and emerging supervisory issues related to higher risk institutions, products, services, customers, and geographic locations. The first conference was held in August 2007 and now will be held annually.
- Financial Crimes Seminars that provide commissioned examiners with a higher level of knowledge of fraudulent schemes and insider abuse. Three seminars were held in 2007.
- An advanced credit curriculum comprised of three separate schools that provided examiners with intensive training in cash flow concepts and credit analysis.
- Two International Banking Schools held for examiners who have supervisory responsibilities for regional or multinational financial institutions that are actively engaged in international banking activities and U.S. branches and agencies of foreign institutions.
- An Information Technology (IT) Symposium for senior IT examiners to discuss significant, current, or emerging issues related to information technology, to consult with external subject matter experts, and to develop recommendations for institutions, service providers, or examiners to address those issues.
- An annual IT Conference for middle and senior level IT examiners. The 2007 conference focused on information security issues such as data protection, customer authentication, identity theft, risk assessment, and network security. Pandemic planning efforts were also studied, along with emerging technologies such as remote deposit capture and wireless banking.
- An annual Asset Management Forum held for examiners and specialists involved in supervising financial institution trust and asset management activities.
A Payments System Risk Conference that addressed the risks involved in emerging and existing payment systems, the means used to minimize these risks, and the methods of evaluating these risks in the examination process.

A Capital Markets Conference held for those examiners who must integrate the risks inherent in capital markets activities into the overall risk profile of an institution during an examination or review of the institution. Two conferences were held in 2007. In addition, a Capital Markets Specialists conference was held to update examiners specializing in capital markets examination activities.

A Community Financial Institutions Lending Forum that addressed credit-related issues affecting financial institutions whose asset size is under $1 billion. The training is intended to heighten examiner awareness and increase knowledge regarding important or emerging credit-related topics confronting the financial institution and regulatory communities.

A Real Estate Appraisal School that provided examiners with the knowledge and skills required to review a commercial real estate appraisal and to determine compliance with agency appraisal regulations and the standards in the Uniform Standards of Professional Appraisal Practice.

A Testifying School designed for commissioned examiners who will testify within three months of completion of the program. In the two sessions in 2007, participants learned to present findings as an expert witness through depositions and in-court testimony.

An internet-based tutorial, which provided an update on the FedLine Advantage (FLA) communications platform and discussed the revised FLA Funds Transfer Examination Work program for the state supervisory agencies, as well as the FFIEC member agencies, the Farm Credit Administration, and the Federal Housing Finance Board.

The agencies sponsor other conferences to discuss emerging supervisory concerns. For example, the agencies’ chief accountants sponsor an annual conference to discuss emerging accounting and auditing issues with the agencies’ examiners and accounting staff. The 2007 conference, attended by approximately 375 participants, included discussions on fair value accounting, internal controls, and accounting for impaired assets, as well as updates from the Securities and Exchange Commission (SEC), the Financial Accounting Standards Board (FASB) and the Public Company Accounting Oversight Board (PCAOB). The agencies also offered five Basel II Advanced Measurement Approaches (AMA) Operational Risk seminars (three domestically and two for international supervisors), attended by 102 U.S. examiners involved in supervising large complex financial institutions that will be subject to the advanced approaches under the Basel II Capital Accord. The seminars addressed the challenges of capital quantification associated with operational risk, industry progress and the range of practice, and supervisory processes for evaluating implementation efforts. The international seminars were provided to approximately 45 supervisors from 20 countries.

In October 2007, the second Interagency Consumer Complaints Conference was attended by approximately 200 participants, including representatives from eleven state banking departments. The agencies convened this conference to discuss financial
institution regulatory issues affecting consumers, to determine more effective means for sharing complaint information among the agencies, and to identify best practices for enhancing the agencies’ interaction with the public. The agencies have agreed to hold such conferences regularly to discuss issues that are common among the agencies. The next conference will be held in April 2009.

**Common Reporting Forms and Examination Tools**

The agencies routinely collaborate on and adopt common reporting forms and examination tools, with a goal of streamlining and reducing burden where possible. For example, the agencies use interagency forms with respect to filings under the Bank Merger Act and the Change in Bank Control Act. In addition, the FDIC, OCC, and OTS have adopted a common form for granting deposit insurance and federal charters.

The FDIC, Federal Reserve Board, and state supervisory agencies have an automated examination support system that includes a common risk-focused supervision framework and loan review tool. Similarly, the agencies, in partnership with the Conference of State Bank Supervisors (CSBS), have developed a standardized electronic loan file format that examiners can use to facilitate community and mid-size bank safety and soundness examinations. The Federal Reserve, in consultation with the other FFIEC agencies, revised the FLA Funds Transfer Examination Work program and made it available to the state supervisory agencies, as well as to the FFIEC member agencies.

**Supervisory Information Sharing and Coordination**

To the extent possible, the agencies build upon each other’s supervisory reviews and databases to minimize regulatory burden. The agencies routinely share reports of examination, inspection reports, and other agency-institution communications. The agencies also provide each other with access to their organizations’ structural, financial, and supervisory information. Meetings and discussions take place among the agencies throughout the year, and when appropriate, the agencies hold joint meetings with institutions involving matters of mutual interest. This approach extends to periodic coordinated reviews or examinations where a business activity is conducted across legal entities.

The agencies extensively coordinate their supervision of large, complex entities to reduce duplication of effort and minimize regulatory burden. To ensure effective coordination, the agencies: (1) share institution risk profiles and other supervisory information regarding the entities they supervise; (2) exchange information on proposed examination and supervisory activities for the coming year; and (3) coordinate the planning and execution of those activities to minimize or eliminate overlap or duplication.

As discussed more fully in the “Other 2007 Accomplishments” section of this report, the agencies closely collaborated in their efforts to monitor and respond to the recent turmoil in the mortgage and credit markets. These efforts have included periodic meetings among the agencies’ senior supervisory staffs to share information on conditions in key market sectors and about financial institutions, to identify potential issues, and to coordinate regulatory responses. Similarly, the agencies’ examination staffs are
coordinating efforts on various information requests, as appropriate, so as to obtain needed
information with the least amount of burden.

The FFIEC's Task Force on Information Sharing serves as a vehicle to enhance and
improve the exchange of electronic information among the agencies. This group is
responsible for establishing principles that protect the privacy, security, and integrity of
shared information. It also oversees the development of data management standards to
improve consistency and encourages the development of compatible technical architectures
among the agencies to ensure that information can be shared efficiently.

The FFIEC’s Task Force on Consumer Compliance oversees the agencies' collection, processing, and dissemination of information collected pursuant to the Home Mortgage Disclosure Act (HMDA) and Community Reinvestment Act (CRA).

The FDIC, Federal Reserve, and state bank supervisors continue to coordinate their efforts via a protocol for the prudential supervision of state-chartered banks. Under this protocol, the home state supervisor and appropriate federal regulator coordinate the supervision of interstate state-chartered banks to ensure a risk-focused process and to reduce regulatory burden. The OTS works closely with individual state supervisors to coordinate the supervision and examination of state savings institutions.

The agencies have executed memoranda of understanding (MOUs) regarding the sharing of confidential supervisory information with state insurance regulators in order to allow the agencies to rely, to the fullest extent possible, on the functional regulators of insurance activities, pursuant to mandates established in the Gramm-Leach-Bliley Act. The agencies have exercised their authority under these MOUs in the context of the supervision of institutions with regulated insurance entities.

**Emergency Preparedness and Response**

As noted in previous years, through the FFIEC’s Task Force on Supervision, the agencies have established a protocol for supervisory communications to be used in emergency situations, the FFIEC Supervisory Emergency Communications Protocol. This protocol is updated quarterly and tested at least annually with key supervisory personnel to ensure its ongoing effectiveness. The protocol was recently enhanced to include information that would facilitate coordination during a pandemic event.

The agencies, together with other federal and state financial regulators, are members of the Financial Banking Information Infrastructure Committee (FBIIC), which was formed to address and coordinate issues related to the security and resilience of the U.S. financial sector. From September 24 through October 12, the FBIIC and the Financial Services Sector Coordinating Council (FSSCC), an organization of financial services trade associations and individual firms, conducted a pandemic flu exercise for the financial services sector in the United States. Objectives of this exercise were to enhance the understanding of systemic risks to the sector, to provide an opportunity for firms to test their pandemic plans, and to examine how the effect of a pandemic flu on other critical infrastructures could impact the financial services sector. A total of 2,775 organizations
registered for the exercise, of which approximately 62 percent were banks, thrifts, and credit unions. The FFIEC as well as the individual agencies publicized the test to encourage participation, which was voluntary. Organizations conducted the exercise anonymously from their own locations through electronic mail and a secure website. Nearly all of the participating institutions identified opportunities to improve their contingency plans for a pandemic.

The FFIEC’s Task Force on Supervision formed a Pandemic Working Group in 2006 to help coordinate planning and supervisory efforts that may be needed during a pandemic event. The Working Group engaged in several projects designed to help the agencies prepare for supervision through a pandemic event. In February 2007, the Working Group hosted a tabletop exercise with the Task Force and in December, issued guidance for use by financial institutions in identifying the continuity planning that should be in place to minimize the potential adverse effects of a pandemic event. This guidance expands upon the Interagency Advisory on Influenza Pandemic Preparedness issued in March 2006. The guidance was also incorporated into an update of the FFIEC Business Continuity Planning Handbook for use by examiners and the industry. The Handbook, which is greatly expanded from the 2003 version, was published in March 2008.

Other Coordinated Supervisory Activities

Where applicable, the agencies coordinate their supervisory activities related to insurance, securities, and banking businesses with functional regulators, such as the SEC and state insurance regulators. Periodic cross-sector meetings with representatives of the agencies, the SEC, state banking, insurance, and securities supervisors, and the Commodity Futures Trading Commission (CFTC) are held to identify areas that may require supervisory attention and coordination. For example, the OCC, FDIC and Federal Reserve have been working with the SEC and other international regulators to improve the trade and settlement processing systems that support the global derivatives market. In addition, in November 2007, the Federal Reserve and SEC issued their joint final rule that implements the bank broker provisions of the Gramm-Leach-Bliley Act (GLBA). In developing the final rules, the SEC and the Federal Reserve consulted with the OCC, FDIC, and OTS.

The agencies, together with FinCEN and OFAC, and the CSBS, are fully committed to preventing the inappropriate use of the financial system by criminals and terrorists. Under the auspices of the FFIEC’s BSA/AML Working Group, the agencies, NCUA, FinCEN, OFAC, and the CSBS collaborated in the development of the FFIEC’s BSA/AML Examination Manual, which was initially released in 2005. In 2007, the manual was updated to further clarify supervisory expectations, incorporate new regulatory issuances, and respond to industry requests for additional guidance. The agencies continued to share information with FinCEN under the interagency MOU that was finalized in 2005, and with OFAC under the interagency MOU that was finalized in 2006. An interagency BSA Enforcement Policy statement, which complements the FFIEC BSA/AML Examination Manual, was developed and issued in 2007. The statement was designed to promote consistency among the agencies with regard to BSA-related
enforcement decisions, and to make standards used by regulators in such cases more transparent.

In addition, the agencies participate in other BSA/AML interagency forums. The Bank Secrecy Act Advisory Group is a public-private partnership devoted to evaluating all BSA matters and exchanging information and recommendations for making the reporting requirements more efficient. Members include representatives from the agencies, FinCEN, federal and state law enforcement agencies, self-regulatory organizations, some state regulatory agencies, and members of the financial services industry subject to BSA regulation, including trade groups and practitioners representing the industry. Through this partnership, the agencies will continue to conduct outreach to obtain input for future updates of the FFIEC BSA/AML Examination Manual.

Insurance specialists from the agencies communicate regularly on an interagency basis with staff of the National Association of Insurance Commissioners, the organization that supports the insurance regulatory officials of the 50 states, the District of Columbia, and the five U.S. territories, on topics of mutual interest to the agencies and state insurance regulators.

International Supervision Coordination

The agencies participate on a number of international supervisory groups, including the Basel Committee on Banking Supervision (BCBS), and the Joint Forum of banking, securities, and insurance regulators, which promote more consistent and uniform supervision of internationally active financial services firms. These groups have a number of work streams underway to evaluate lessons learned and to assess whether additional policy actions are needed in response to recent market events. The agencies also participate in the Association of Supervisors of Banks of the Americas (ASBA), which promotes international standards for effective banking supervision in the Americas region.

The agencies provide training for staff and officials from non-U.S supervisory authorities and foreign central banks. During the year, the agencies offered training courses exclusively for foreign supervisory authorities in Washington, D.C. and in a number of foreign jurisdictions. Staff at the agencies also took part in technical assistance and training missions led by the International Monetary Fund, the World Bank, the Asian Development Bank, the BCBS, the Financial Stability Institute, South East Asian Central Banks Research and Training Center (SEACEN) and ASBA. This training was concentrated in Latin America, Asia, the Middle East and North Africa, and Eastern Europe.

In support of the United States Partnership for Financial Excellence in the Middle East and North Africa (MENA), the agencies worked with the U.S. Treasury Department, the U.S. State Department, and the U.S. Agency for International Development to design and deliver training programs aimed at improving banking supervision in the MENA region. Additionally, through the Treasury Department, the agencies participated in the Third United States – Middle East & North Africa Private Sector Dialogue Conference in the United Arab Emirates and the US-LA Private Sector Dialogue Conference, in
Colombia, with the primary focus of addressing global money laundering risks and related controls and risk mitigants.

The agencies also supported training activities delivered under the Asia Pacific Economic Cooperation Financial Regulators Training Initiative, which was launched by the Treasury Department shortly after the Asian crisis. Administrative and funding support for this initiative is provided by the Asian Development Bank. Also, the agencies have supported the State Department through the Terrorist Finance Working Group by providing training for foreign supervisors and technical assistance to designated countries related to money laundering and terrorist financing risks.

Federal and state supervisory agencies coordinate the supervision of U.S. operations of foreign banking organizations through the Foreign Banking Organizations Supervision Program, which involves extensive interagency information sharing and supervisory collaboration. In addition, staffs at the agencies participate in an annual interagency international supervision conference. The annual conference brings together senior supervisors from across the agencies to discuss emerging international supervisory developments, as well as the implications of these developments on the supervisory strategies for the U.S. operations of internationally active financial institutions and the international operations of U.S. banking organizations.

The agencies also coordinate with numerous foreign regulatory authorities in the supervision of internationally active companies and, when appropriate, jointly enter into multilateral statements of cooperation with foreign bank supervisors. For example, the agencies are working closely with foreign supervisors to coordinate home/host issues associated with the implementation of the Basel II Capital Accord and in monitoring and assessing the potential effects that recent market disruptions may have on global financial institutions and market operations.

The agencies represent the United States annually at an international information sharing conference focused on technology risks and risk management practices. The 2007 Information Technology Supervisors Group (ITSG) Conference convened in Toronto, Canada, and included financial institution supervisory agencies from sixteen countries. Discussion topics included information security, outsourcing, IT auditing, pandemic event planning, and Basel II AMA for operational risk preparedness.

**Formal Joint Examination Programs**

In addition to the coordination mechanisms discussed above, the agencies also have three formal joint examination programs that allow them to leverage and share examination resources and provide consistent supervisory evaluations of activities that often cut across financial institutions.

**Shared National Credit Program**

The Shared National Credit (SNC) program is a joint effort of the FDIC, Federal Reserve Board, OCC, and the OTS as an assisting agency to collaborate on reviewing large
syndicated loans held by multiple banks. The SNC program reviews selected borrowers using interagency teams to avoid duplicate reviews of the same credit and to ensure consistent treatment. The agencies release to the public aggregate statistical data from the SNC program, which provides a unique perspective on credit quality trends in the banking industry. In 2007, this program covered 7,686 credits totaling $2.3 trillion in credit commitments to 5,264 borrowers.

The agencies implemented an enhanced sampling methodology beginning with the 2003 SNC review process. The goal of this methodology was to promote efficiency and effectiveness through a more focused, risk-based review of SNCs. The immediate impact has been a decrease in the number of facilities selected for examiner review as well as a reduced dollar amount of SNCs reviewed. This has resulted in a significant reduction in the overall cost and burden of the SNC program.

The agencies are continuing their work on a SNC modernization initiative to standardize the SNC data collection process, expand SNC data collected from large reporting institutions, apply advanced credit risk benchmarking techniques for common SNC borrowers/portfolios, and provide reporting banks with feedback on their commonly held SNC portfolios. A Notice for Public Comment on SNC Modernization was published in the Federal Register on December 20, 2004. Final specifications and related procurement and development activities are planned for 2008.

**Multi-Regional Data Processing Servicer and Shared Application Software Review Programs**

Under the auspices of the FFIEC's IT Subcommittee of the Task Force on Supervision, the FFIEC member agencies administer two joint programs that support the assessment of the technology environment for institutions that 1) outsource their technology services and automated processing activities, or 2) rely on off-the-shelf applications to run their core banking systems. Examinations of service providers under the Multi-Regional Data Processing Servicer (MDPS) program are coordinated on a national level and target organizations considered by the agencies to present the most risk to the financial system due to the mission-critical nature of their services and the breadth of their client base, or because a provider processes work from operations over a sufficiently diverse geographic footprint.

Conducting the service provider examinations jointly is a more efficient and effective utilization of the agencies' IT examiners. In an effort to enhance the agencies' risk-focused supervisory approach for examining the providers in the MDPS program, the IT Subcommittee sponsored an Interagency MDPS Supervisory Strategy Meeting in both 2006 and 2007. Examiners assigned to each MDPS entity across the agencies collaboratively assess each firm's key risks and discuss appropriate supervisory responses. The result is a risk-focused exam approach for each firm that addresses its unique risk profile while promoting consistency of supervision across the MDPS firms. Given the initial positive results, the agencies are planning a 2008 meeting and expect to continue holding annual meetings.
In 2007, the IT Subcommittee also conducted a member agency-based survey on the foreign-based outsourcing activities of supervised financial institutions. The survey information provided all FFIEC agencies with current data on the financial institutions that utilize foreign-based technology service providers, including the volume and types of outsourcing activities.

The Shared Application Software Review program provides a tool for the agencies to review and share assessments of mission-critical software systems and applications, such as wire transfers, capital markets, loans, deposits, and general ledger systems that are used by a large number of financial institutions. These assessments are designed to reduce the time and resources needed to examine mission-critical processing activities at each of the user financial institutions.

**Interagency Country Exposure Review Committee (ICERC)**

The FDIC, Federal Reserve Board, and OCC formed ICERC in 1979 to ensure consistent treatment of the transfer risk associated with financial institutions' foreign exposures to public and private sector entities. The OTS joined ICERC in 2006 as an observing non-voting agency. New York State banking regulators also regularly attend the annual ICERC meeting.

At their October 2007 ICERC meeting, the agencies approved changes to the ICERC procedures and rating systems that would make the supervision of cross-border exposures more efficient and risk-focused. Such changes maintain strict regulatory attention to areas of transfer risk, but now also include discussions of regional and global macro trends that might indicate future areas of risk. ICERC continues to determine the appropriate classification and level of reserves for countries that are in default. ICERC decisions and analytical write-ups are used by the agencies to help examination teams assess individual institutions' cross-border risk.

**Other 2007 Accomplishments**

Throughout 2007, the agencies continued their efforts to coordinate examination and supervisory activities and to reduce unnecessary regulatory burden. In addition to those programs and efforts already noted in this report, highlights of the agencies' other 2007 efforts are outlined below.

**Initiatives to Promote Sound Lending Practices and Respond to Recent Credit Market Events**

As noted in the last two previous reports, the agencies undertook efforts starting in 2005 to address concerns about weakening underwriting standards and inadequate risk management practices for certain residential and commercial real estate lending products. These efforts culminated in the issuance of final interagency guidance on home equity lending in May 2005, on nontraditional mortgage products in September 2006, and on concentrations in commercial real estate lending in December 2006.
Continued weaknesses in the U.S. housing and mortgage markets, manifested in increased residential mortgage delinquencies and foreclosures and attendant fallout in various capital market instruments such as structured debt obligations, have been a major concern and focus for the agencies throughout the past year. The agencies have actively worked with Congressional leaders, other regulators, and industry and community groups to address these problems.

The agencies published for comment a proposed Statement on Subprime Mortgage Lending in March 2007 and issued final guidance in June to address risk management practices and consumer disclosures related to certain subprime adjustable rate mortgage (ARM) products. These products generally reset following an initial “teaser” rate, have high (or no) payment or rate caps, have substantial prepayment penalties, or have features likely to result in frequent refinancing to maintain affordable monthly payments. The subprime statement applies to all depository institutions, their subsidiaries, and non-depository affiliates, but not to state-regulated independent mortgage companies. Because non-federally regulated lenders are major originators of subprime mortgages, the agencies coordinated the development of the statement with the CSBS, which also has endorsed adoption of the subprime statement by the States.

As in the agencies’ 2006 guidance on nontraditional mortgage products, the subprime statement specifies that an institution’s analysis of a borrower’s repayment capacity should include an evaluation of the borrower’s ability to repay the debt by its final maturity at the fully indexed rate, assuming a fully amortizing repayment schedule. The statement also emphasizes the additional risks that these products can pose to an institution and a borrower when combined with other risk layering features, such as simultaneous second lien mortgages and little or no documentation of the borrower’s income or assets. The statement underscores that communications with consumers, including advertisements, oral statements, and promotional materials, should provide clear and balanced information about the relative benefits and risks of the products. This information should be provided in a timely manner to assist consumers in their product selection process, not only upon submission of an application or at consummation of the loan.

Throughout 2007, the agencies encouraged lenders and mortgage servicers to appropriately work with mortgage borrowers who may be facing difficulties. In April 2007, the agencies issued an interagency Statement on Working with Mortgage Borrowers to encourage financial institutions to work constructively with borrowers who are financially unable to make their contractual payment obligations on their home loans. This interagency statement does not limit the terms of specific workout arrangements and recognizes that they can vary widely based on the borrower’s specific circumstances. The agencies advised that institutions that follow prudent underwriting practices when engaging in workouts would not be criticized by the agencies for pursuing reasonable arrangements with borrowers. The statement also noted that lenders may receive favorable Community Reinvestment Act (CRA) consideration for programs that transition low- and moderate-income borrowers from higher cost loans to lower cost loans, provided that the loans are made in a safe and sound manner. The CSBS issued a similar statement.
The agencies also worked closely with the SEC, the FASB, and the American Securitization Forum to explore and clarify actions that mortgage servicers can take to assist borrowers whose mortgages have been securitized and sold to third party investors. Also a series of forums, hosted by the FDIC, were held with regulators and market participants to highlight and discuss these issues. Following these efforts, in September 2007, the agencies and the CSBS issued a statement encouraging federally regulated financial institutions and state-supervised entities that service securitized residential mortgages to pursue strategies to mitigate losses while preserving homeownership to the extent possible and appropriate. The statement encourages servicers of securitized mortgages to review the governing documents for the securitization trusts to determine the full extent of their authority to restructure loans that are delinquent, in default, or are in imminent risk of default. The governing documents may allow servicers to proactively contact borrowers at risk of default, assess whether default is reasonably foreseeable, and, if so, apply loss mitigation strategies designed to achieve sustainable mortgage obligations.

In December 2007, the OTS hosted a National Housing Forum that brought together regulatory agencies and some of the nation's foremost housing and economic experts to discuss the most significant current housing finance issues. The all-day event, attended by approximately 300 participants, featured panel discussions on: the outlook for the U.S. housing market and its potential effect on financial institutions; challenges and risks in the home mortgage market; consumer protection issues, including the growing problem of foreclosures; and the effect of capital markets on housing finance. The agencies will continue to work with lenders, community groups and members of Congress in the months ahead to address these issues.

In addition to these policy efforts, the agencies' examination staffs are coordinating supervisory efforts to address other related issues that may have a broad impact on the industry, including various accounting, disclosure, valuation, capital and liquidity issues.

**Pilot Projects to Improve Supervision of Subprime Mortgage Lenders**

In July 2007, the Federal Reserve Board, the OTS, the Federal Trade Commission (FTC), the CSBS, and the American Association of Residential Mortgage Regulators announced a pilot project to conduct targeted consumer-protection compliance reviews of selected non-depository lenders with significant mortgage operations. The pilot will focus on non-depository subsidiaries of bank and thrift holding companies, as well as mortgage brokers doing business with, or working for these entities. Additionally, the states will conduct coordinated examinations of independent state-licensed subprime lenders and their associated mortgage brokers.

**Revisions to Risk-Based Capital Standards**

The agencies work together closely to discuss and coordinate complex capital rulings, interpretations, and initiatives. During 2007, the agencies continued their implementation of the advanced approaches under the Basel II Capital Accord, issued in final form by the BCBS in June 2006. As reported last year, the agencies issued a notice of proposed rulemaking in September 2006 to implement the Basel II advanced approaches. In December 2006, the agencies issued a notice of proposed rulemaking with
several revisions to the existing U.S. risk-based capital rules (Basel IA proposal). The comment period for both of these initiatives ended on March 26, 2007.

Over most of 2007, the agencies focused on issuing a final rule related to the Basel II advanced approaches. That final rule was published in the Federal Register on December 7, 2007. Institutions may begin transitioning to the new rules after they adopt an implementation plan and have systems that comply with the final rule's qualification requirements. In January 2008, the agencies published for approval by the Office of Management and Budget, final reporting requirements and reporting templates for institutions that will be adopting the Basel II advanced approaches.

The agencies decided not to finalize the Basel IA proposal and have agreed, instead, to issue a new notice of proposed rulemaking that would implement the standardized approach under Basel II.

Accounting and Audit Initiatives and Guidance
The agencies recognize the importance of high quality accounting and auditing standards to the continued safe and sound operation of insured depository institutions and work closely with the SEC, the FASB, the International Accounting Standards Board (IASB), the American Institute of Certified Public Accountants (AICPA), the PCAOB, and the International Auditing and Assurance Standards Board (IAASB) on matters of mutual interest. The agencies routinely collaborate on supervisory guidance to address safety and soundness concerns that arise from accounting and auditing matters. The agencies also work together to provide commentary on proposals by the various accounting and auditing standards setters that may have a significant impact on the banking industry. The agencies are working closely with the SEC and the FASB on various issues related to the recent market disruptions, including various interpretations and application of guidance related to mortgage loan servicing agreements, fair value measurement in illiquid markets, and accounting for asset-backed commercial paper and structured financial instruments.

Initiatives to Enhance Consumer Disclosures and Safeguards
The agencies continued their work to improve financial disclosures to consumers. In May 2007, the agencies issued final illustrations of consumer information intended to help institutions implement the consumer protection portion of the nontraditional mortgage guidance. The consumer protection section of the guidance sets forth recommended practices to ensure that consumers have clear and balanced information about nontraditional mortgages before choosing a mortgage product or before selecting a payment option for an existing mortgage.

In August 2007, the agencies issued proposed illustrations of consumer information for certain ARM products described in the agencies' subprime mortgage lending statement. The subprime statement recommends that communications ensure that consumers have clear, balanced, and timely information about the relative benefits and risks of certain ARM products. The illustrations are intended to assist institutions in providing this information.
In March 2007, the FFIEC agencies, in conjunction with the CFTC, the SEC, and the FTC, issued for comment a proposed model privacy form that financial institutions could use for their privacy notices to consumers as required under the GLBA.

In 2007, the agencies also closely coordinated rulemaking efforts under the Fair and Accurate Credit Transaction Act of 2003 to enhance the ability of consumers to combat identity theft, to increase the accuracy of consumer reports, and to allow consumers to exercise greater control over the type and amount of certain marketing solicitations they receive. The late 2007 rulemakings made by the FFIEC agencies and, in some cases, made with the FTC, are as follows:

- Final rules on identity theft “red flags.” The new rules require each financial institution and creditor that holds any consumer account, or other account for which there is a reasonably foreseeable risk of identity theft, to develop and implement an Identity Theft Prevention Program for combating identity theft in connection with new and existing accounts.

- Proposed rules and guidelines for ensuring the accuracy and integrity of information furnished to consumer reporting agencies. The proposed rules also would identify the circumstances when an entity would be required to investigate a dispute concerning the accuracy of certain consumer report information, based on a direct request of a consumer.

- Final rules requiring credit and debit card issuers to develop policies and procedures to assess the validity of a request for a change of address that is followed closely by a request for an additional or replacement card. The agencies also issued final rules requiring users of consumer reports to develop reasonable policies and procedures to apply when they receive a notice of address discrepancy from a consumer reporting agency.

- Final rules that provide consumers with an opportunity to “opt out” before a financial institution uses information provided by an affiliated company to make certain marketing solicitations about its products and services to the consumer.

In other consumer protection activities, in September 2007, the FFIEC agencies issued for comment a proposed statement encouraging financial institutions to follow best practices to protect federal benefit payments from garnishment orders. The proposed guidance was developed to encourage financial institutions to have policies and procedures in place with respect to handling garnishment orders and sets forth best practices, including procedures designed to expedite notice to the consumer of the garnishment process and release of funds to the consumer as quickly as possible.

The agencies encourage financial institutions to work directly with their customers to resolve complaints or inquiries. There are instances, however, where a consumer may seek the assistance of the regulator in such matters and each of the agencies has phone numbers, web sites, and processes in place to offer such assistance. The agencies
recognize that there may be opportunities to enhance their consumer complaint and inquiry programs. In December 2007, the FFIEC approved the recommendations of an interagency consumer complaint working group to engage a third party vendor to evaluate the feasibility, options and benefits associated with a number of interagency initiatives to enhance the consumer's experience, including for example, a process for routing consumer calls, letters, and emails to the appropriate agency. As part of this work, the vendor would be asked to conduct consumer focus groups to gather information regarding the consumer complaints process. Additionally, the vendor would be charged with evaluating the benefit and the feasibility of initiatives that would leverage agency resources. The working group proposed a time line that would result in a report of the vendor's recommendations by September 2008.

Updated Supervisory Guidance

The agencies continually work together to promote the goals of the CRA. In July 2007, the agencies issued for comment a series of new and revised interagency questions and answers pertaining to the CRA. Some of the proposed revisions are intended to encourage institutions to work with homeowners who are unable to make mortgage payments by highlighting that the institutions can receive CRA consideration for foreclosure prevention programs for low- and moderate-income homeowners, consistent with the April 2007 interagency Statement on Working with Mortgage Borrowers. Other revisions relate to CRA consideration of investments in, and joint ventures with, minority- and women-owned financial institutions.

In June 2007, the agencies released a list of distressed or underserved non-metropolitan middle-income geographies in which bank revitalization or stabilization activities will receive CRA consideration as "community development."

Finally, in September 2007, the FFIEC agencies approved updated examination procedures for Regulation DD (Truth in Savings). The changes include procedures for the disclosure requirements for institutions advertising the payment of overdrafts.

Initiatives to Reduce Unnecessary Regulatory Burden and Enhance Efficiency

In 2003, the agencies initiated an interagency project to review their regulations to identify and eliminate those regulations that are outdated, unnecessary, or unduly burdensome on insured depository institutions, pursuant to Section 2222 of the Economic Growth and Regulatory Paperwork Reduction Act of 1996 (EGRPRA). EGRPRA requires the agencies to categorize the regulations, publish the categories for comment, report to Congress on any significant issues raised by the comments, eliminate unnecessary regulations, and analyze whether legislative change is required to reduce burden. The agencies completed and submitted the report to Congress in the fall of 2007.

In September 2007, the agencies issued final rules that raised the $250 million ceiling for 18-month examinations to $500 million for qualified, well-managed depository institutions. The rule implements section 605 of Financial Services Regulatory Relief Act (FSRRA) of 2006 and related legislation.
Section 604 of FSRRA requires the agencies to review the content of “Reports of Condition” within one year of enactment and then to use the results as a basis for eliminating or reducing any unnecessary or inappropriate information collected in these reports. The FFIEC’s Task Force on Reports surveyed 165 user groups within the agencies and CSBS to identify the purposes for which each group uses each reported data item, the extent of usage for each item, and the frequency with which each item is needed. The survey was completed in August and the results were evaluated and reported to the FFIEC principals in October 2007. In 2008, the Task Force will consider the information received from the survey to determine where possible burden-reducing revisions may be made in the reports of condition.

During the fourth quarter of 2007, the FFIEC BSA/AML Working Group began an interagency dialogue to evaluate the agencies’ current risk-based BSA examination approach, and to identify possible areas to reduce regulatory burden for financial institutions that have a lower BSA risk.

Conclusion

The agencies are committed to maintaining regulatory and supervisory processes that maximize efficiency, while eliminating unnecessary costs to institutions, maintaining safety and soundness, and safeguarding consumers. The agencies have worked in the past year—and will continue to work—to improve the supervisory process by reducing regulatory burden, promoting consistency, eliminating duplicative activities in the examination process, and promoting greater efficiency in the use of resources. Coordination and streamlining efforts have been successful thus far, and we intend to continue exploring ways in which the agencies can work together, leverage each other’s efforts, and ease the regulatory burden on the financial institutions the agencies supervise.

Sincerely,

Randall S. Kroszner, Governor
Board of Governors of the Federal Reserve System

Sheila C. Bair, Chairman
Federal Deposit Insurance Corporation

John C. Dugan
Comptroller of the Currency

John M. Reich, Director
Office of Thrift Supervision
The Honorable Barney Frank  
Chairman  
Committee on Financial Services  
House of Representatives  
Washington, D.C. 20515

Dear Mr. Chairman:

The Board of Governors of the Federal Reserve System (Federal Reserve Board), the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS) (collectively, the agencies) are submitting this joint report to Congress as required by Section 305 of the Riegle Community Development and Regulatory Improvement Act. This is the thirteenth interagency report submitted under that section.

The agencies remain committed to the mandate of Section 305 to improve the coordination of examinations and supervision of institutions that are subject to multiple regulators. The basic principles governing these activities are set forth in the Interagency Policy Statement on Examination Coordination, issued in 1993. As indicated in previous Section 305 reports, the agencies place high priority on working together to identify and reduce regulatory burden and on coordinating supervisory activities, not only with each other and state supervisors, but also with United States securities regulators, state insurance regulators, and foreign financial institution supervisors.

Coordinating Responses to Recent Market Events

Much of the agencies’ supervisory and policy efforts over the past year have focused on monitoring and responding to the unprecedented market turmoil and associated dislocations in global credit and funding markets. In responding to these events, the agencies have drawn heavily on the established protocols and coordinating mechanisms discussed in this report. The agencies are holding frequent meetings among their senior supervisory staffs and with agency principals to share information, identify potential issues, and coordinate regulatory responses. Key supervisory staffs from each agency meet on a regular basis to exchange information on potential troubled institutions and to coordinate resolution strategies for those institutions. For institutions where failure may be imminent, the primary federal agency works closely with the FDIC to ensure an orderly receivership or liquidation.
The agencies are working closely with the U.S. Treasury Department to implement provisions of the Emergency Economic Stabilization Act of 2008 (EESA). These efforts include providing technical assistance to the U.S. Treasury Department on the design and operation of asset and capital purchase programs under its Troubled Asset Relief Program (TARP) facility. Treasury coordinated with the agencies in developing a uniform application form for qualified financial institutions (QFIs) that want to participate in the TARP Capital Purchase Program (CPP) and are using common evaluation factors and decision forms to review and provide recommendations on those applications to Treasury. Representatives of the agencies also serve on the TARP CPP Council that is an advisory body to Treasury to ensure that recommendations for CPP participation are applied effectively and consistently across the federal banking agencies and QFI applicants. The agencies are also working with the U.S. Treasury to develop reporting mechanisms to monitor and assess the use and effectiveness of TARP CPP proceeds by QFIs and to conduct forward looking assessments of the potential capital needs of the largest CPP recipients. Similar coordinating efforts are taking place among the federal banking agencies to ensure a smooth implementation of the FDIC’s Temporary Liquidity Guarantee Program (TLGP).

In July 2008, the FDIC sponsored and the Federal Reserve Board, the OCC, the OTS, and the U.S. Treasury participated in the Forum on Mortgage Lending for Low- and Moderate-Income (LMI) Households. The purpose of the Forum was to explore a framework for LMI mortgage lending in the future, including the identification of market and regulatory incentives for encouraging responsible LMI mortgage lending. The Forum featured speakers and participants from banking, investing, government, academia, and the nonprofit community.

The agencies have issued several rulemakings and guidance in response to the recent market turmoil. In October 2008, the agencies issued an interagency statement and reporting instructions to allow banking organizations to recognize the effect of the tax change enacted in Section 301 of the EESA in their third quarter 2008 regulatory capital calculations. The agencies also finalized a joint rulemaking that would permit a banking organization to make the required deduction from tier I capital of goodwill net of any associated deferred tax liability.

In November 2008, the agencies issued the Interagency Statement on Meeting the Needs of Creditworthy Borrowers. In implementing this Statement, institutions are encouraged to lend prudently and responsibly to creditworthy borrowers, work with borrowers to preserve homeownership and avoid preventable foreclosures, adjust dividend policies to preserve capital and lending capacity, and employ compensation structures that encourage prudent lending. In an effort to make key aspects of mortgage loan data more transparent and publicly available, the OTS and OCC in September began publishing joint quarterly reports on loan performance, delinquencies and foreclosures. The reports present data from fourteen national banks and thrifts with the largest mortgage portfolios and can be used by examiners to assess emerging trends, evaluate asset quality and loan loss reserve needs, identify anomalies, and evaluate loss mitigation actions.

In December, the regulatory agencies met at the National Housing Forum with some of the nation’s foremost housing and economic experts to discuss the most significant current housing finance issues. This all-day event was hosted by the OTS and featured panel discussions.
on: U.S. housing and residential mortgage markets; the regulators' efforts to deal with industry challenges and market uncertainties; the mortgage-backed securities market; and regulation of the mortgage lending industry. The agencies will continue to work with lenders, community groups and members of Congress in the months ahead to address these issues.

The agencies are also working closely with other domestic and international supervisors, including the President's Working Group, the Joint Forum of banking, securities, and insurance regulators, and the Senior Supervisors' Group, to identify and coordinate actions aimed at both restoring functioning markets and strengthening risk management and disclosure practices. For example, the Federal Reserve Board and the OCC are working with the Federal Reserve Bank of New York, the Securities and Exchange Commission (SEC), and other key global regulators and market participants to strengthen the operational infrastructure and backroom processes used for various over-the-counter derivative transactions. In September 2008, the agencies joined other global supervisors in endorsing the Basel Committee on Banking Supervision's (BCBS) *Principles for Sound Liquidity Risk Management and Supervision*. The principles underscore the importance of establishing a robust liquidity risk management framework that is well integrated into the bank-wide risk management process. The agencies plan to issue for comment guidance on the application of these principles to U.S. depository institutions later this year.

The recent market turmoil has highlighted areas where the current Basel II capital framework may need to be strengthened and the agencies are actively involved in these efforts. Among the refinements that are recommended in the consultative paper that the BCBS issued in January 2009 are higher capital requirements for re-securitizations, such as collateralized debt obligations comprised of asset-backed securities; a Pillar 2 capital requirement that is an add-on to the Pillar 1 capital requirement; and additional disclosures related to securitizations. These recommendations focused on structured securities as these securities experienced significant losses during the recent market turmoil. The capital treatment of liquidity facilities that support asset-backed commercial paper conduits is also under review. The current market risk capital framework, based on 1996 amendments to Basel I, is also being reexamined. These proposed changes are designed to better reflect potential exposures arising from the larger portion of complex, less liquid credit products that institutions now hold in their trading portfolios and to further reduce the incentive for regulatory arbitrage between the banking and trading books. Once the BCBS finalizes these and other changes to the Basel II Accord, the U.S. agencies will jointly consider their adoption in the U.S. through the agencies' notice and comment process.

Building on discussions begun in 2008, the BCBS also announced in early 2009 that it believes the level of capital in the banking system needs to be strengthened to raise its resilience to future episodes of stress. The Committee indicated that this would be achieved by a combination of measures such as introducing standards to promote the build-up of capital buffers that can be drawn down in periods of stress, strengthening the quality of bank capital, improving the risk-coverage of the capital framework and introducing a non-risk based supplementary capital measure. The agencies are actively involved in these initiatives.

The agencies are working closely with the SEC and the Financial Accounting Standards Board (FASB) on various accounting and disclosure issues related to the recent market disruptions, including various interpretations and application of guidance related to mortgage
loan modifications, fair value measurement in illiquid markets, and accounting for asset-backed commercial paper and structured financial instruments. The agencies provided input as needed to the FASB as it developed revised accounting and disclosure standards governing securitization transactions, off-balance sheet entities, and various aspects of fair value measurement and other-than-temporary impairment of investment securities. The FASB issued exposure drafts of those revised standards on September 15, 2008. The agencies are participating in a number of roundtable meetings with various market participants in order to ensure that they have a thorough understanding of how the proposed accounting changes would affect banking organizations from a regulatory perspective.

In June 2008, the Federal Reserve Board and the OCC joined with the SEC to issue a letter to certain public banking organizations encouraging better disclosures of off-balance sheet risk. The statement encourages banking organizations that make significant use of off-balance sheet entities to review, assess, and as appropriate enhance the risk disclosures they make to the public in line with recommendations made in an April 7, 2008, report by the Financial Stability Forum titled, Enhancing Market and Institutional Resilience.

Mechanisms to Coordinate Supervision

The agencies, in conjunction with state supervisors, have a number of formal and informal mechanisms to foster continued coordination in examining and supervising banking organizations.

Federal Financial Institutions Examination Council

The Federal Financial Institutions Examination Council (FFIEC) is a legislatively established body responsible for promoting uniform supervisory policies and establishing uniform principles, standards, and report forms for examinations of depository institutions. The member agencies of the FFIEC are the agencies and the National Credit Union Administration (NCUA). As the result of legislation in 2006, the Chair of the FFIEC State Liaison Committee serves as a sixth member of the FFIEC. The State Liaison Committee is composed of five representatives of State agencies that supervise financial institutions. Through its State Liaison Committee, the FFIEC serves as an important forum for promoting uniform examination principles and standards by federal and state supervisory agencies.

To foster interagency cooperation, the FFIEC has established interagency task forces on consumer compliance, examiner education, information sharing, reports, surveillance systems, and supervision. These task forces share information and coordinate activities on a wide range of supervisory issues.

Joint Supervisory Training Courses and Conferences

The FFIEC’s Examiner Education Office offers a variety of schools, conferences, and workshops for the agencies’ examiners. These courses are also made available to examiners from the state supervisory agencies. A listing of course offerings and schedules is available on the FFIEC’s website at www.ffiec.gov/exam/education.htm.
The agencies also sponsor conferences to discuss emerging supervisory concerns. For example, the agencies' chief accountants sponsor an annual conference to discuss emerging accounting and auditing issues with the agencies' examiners and accounting staff. The 2008 conference, attended by approximately 360 participants, included discussions on fair value accounting, accounting for impaired assets, and other accounting issues associated with market disruption, as well as updates from the SEC, the FASB and the Public Company Accounting Oversight Board (PCAOB). In August 2008, the agencies also sponsored the annual Information Technology conference, which was attended by over 225 federal and state examiners. This conference provided advanced training on emerging issues in data security, identity theft, pandemic planning, and remote deposit capture. The agencies also sponsored the second Advanced Bank Secrecy Act/Anti-Money Laundering (BSA/AML) Specialists Conference which was attended by over 200 participants. Topics of the conference included emerging payments, remote deposit capture and trade finance.

**Common Reporting Forms and Examination Tools**

The agencies routinely collaborate on and adopt common reporting forms and examination tools, with a goal of streamlining and reducing burden where possible. For example, the agencies use interagency forms with respect to filings under the Bank Merger Act and the Change in Bank Control Act. Furthermore, through the FFIEC Task Force on Reports, the agencies have established a number of common reporting forms filed by commercial and state-chartered savings banks and by U.S. branches and agencies of foreign banks.

The FDIC, Federal Reserve Board, and state supervisory agencies have an automated examination support system that includes a common risk-focused supervision framework and loan review tool. Similarly, the agencies, in partnership with the Conference of State Bank Supervisors (CSBS), have developed a standardized electronic loan file format that examiners can use to facilitate community and mid-size bank safety and soundness examinations. The Federal Reserve, in consultation with the other FFIEC agencies, maintains the Funds Transfer Examination Work program and makes it available to the state supervisory agencies, as well as to the FFIEC member agencies.

**Supervisory Information Sharing and Coordination**

To the extent possible, the agencies build upon each other's supervisory reviews and databases to promote comprehensive supervision and to minimize regulatory burden. The agencies routinely share reports of examination, inspection reports, and other agency-institution communications. The agencies also provide each other with access to their organizations' structural, financial, and supervisory information. Meetings and discussions take place among the agencies throughout the year and, when appropriate, the agencies hold joint meetings with institutions involving matters of mutual interest. This approach extends to periodic coordinated reviews or examinations where a business activity is conducted across legal entities.

The agencies coordinate supervisory efforts related to large, complex entities to ensure consistency in supervisory approaches and to reduce duplication of effort. The agencies routinely share institution risk profile information and other supervisory data regarding the entities they supervise and exchange information on proposed examination and supervisory
activities. Agency staffs also meet periodically to discuss issues related to complex financial institutions, and select staffs participate in joint examinations or targeted reviews.

As discussed earlier in this report, the agencies closely collaborated in their efforts to monitor and respond to the recent turmoil in the mortgage and credit markets. These efforts have included periodic meetings among the agencies' senior supervisory staffs to share information on conditions in key market sectors and about financial institutions, to identify potential issues, and to coordinate regulatory responses. Similarly, the agencies' examination staffs are coordinating efforts on various information requests, as appropriate, so as to obtain needed information while minimizing unnecessary burden.

The FFIEC's Task Force on Information Sharing serves as a vehicle to enhance and improve the exchange of electronic information among the agencies. This group is responsible for establishing principles that protect the privacy, security, and integrity of shared information. It also oversees the development of data management standards to improve consistency and encourages the development of compatible technical architectures among the agencies to ensure that information can be shared efficiently.

The FFIEC's Task Force on Consumer Compliance oversees the agencies' collection, processing, and dissemination of information collected pursuant to the Home Mortgage Disclosure Act (HMDA) and Community Reinvestment Act (CRA).

The FFIEC's Task Force on Supervision Information Technology Subcommittee (ITS) collaboratively manages the implementation of policies and procedures, such as stronger internet authentication and general information technology security standards, to ensure consistent treatment for institutions across all charters. The ITS additionally manages the coordinated supervision of financial institution technology service providers and publishes extensive standard examination tools.

The FDIC, Federal Reserve, and state bank supervisors continue to coordinate their efforts via a protocol for the prudential supervision of state-chartered commercial and savings banks. Under this protocol, the home state supervisor and appropriate federal regulator coordinate the supervision of interstate state-chartered banks to ensure a risk-focused process and to reduce regulatory burden. The OTS works closely with individual state supervisors to coordinate the supervision and examination of state savings institutions.

The agencies have executed Memoranda of Understanding (MOUs) regarding the sharing of confidential supervisory information with state insurance regulators to allow the agencies to rely, to the fullest extent possible, on the functional regulators of insurance activities, pursuant to mandates established in the Gramm-Leach-Bliley Act. The agencies have exercised their authority under these MOUs in the context of the supervision of institutions with regulated insurance entities.

Emergency Preparedness and Response

Through the FFIEC's Task Force on Supervision, the agencies have established a protocol for supervisory communications to be used in emergency situations, the FFIEC
Supervisory Emergency Communications Protocol. This protocol is updated quarterly and tested at least annually with key supervisory personnel to ensure its ongoing effectiveness. The protocol includes information that would facilitate coordination during a pandemic event.

The agencies, together with other federal and state financial regulators, are members of the Financial Banking Information Infrastructure Committee (FBIIIC), which was formed to address and coordinate issues related to the security and resilience of the U.S. financial sector. In January 2008, the FBIIIC and the Financial Services Sector Coordinating Council (FSSCC), an organization of financial services trade associations and individual firms, published an after-action report from a pandemic flu exercise held in September and October 2007 for the financial services sector in the United States. Objectives of this exercise were to enhance the understanding of systemic risks to the sector, to provide an opportunity for firms to test their pandemic plans, and to examine how the effect of a pandemic flu on other critical infrastructures could impact the financial services sector. A total of 2,775 organizations participated in the exercise, of which approximately 62 percent were banks, thrifts, and credit unions. The after-action report noted that the majority of participants had made significant progress in preparing for a pandemic; however, nearly all of the participating institutions identified opportunities to improve their contingency plans. The exercise revealed several key themes that are important to pandemic planning: communications plans, infrastructure dependency plans, cross-trained employees, telecommuting, human resources issues, and second wave pandemic plans.

In addition, the FBIIIC has established emergency communication protocols to maintain effective communication among members in the event of an emergency. The agencies, as members of the FBIIIC, will convene via conference call no later than 90 minutes following the first public report of an event to share situational and operational status reports. Each FBIIIC member is then responsible for establishing and maintaining communication with the institutions for which they have primary supervisory authority as well as to ensure coordination between public affairs and media relations staffs. The FBIIIC protocols have been activated in 2008 for the Midwest flooding event, all significant hurricanes that made landfall in the United States, and the white powder HazMat incident.

The FFIEC’s Task Force on Supervision established a Pandemic Working Group to coordinate planning and supervisory efforts that may be needed during a pandemic event. Throughout 2008, the Working Group engaged in several projects designed to help the agencies prepare for supervision through a pandemic event. The Working Group sponsored a Roundtable on Pandemic Planning, which had approximately 170 industry attendees, including some international participants. The FFIEC’s Business Continuity Planning Booklet was updated in March 2008 to include guidance on identifying the continuity planning that should be in place to minimize the potential adverse effects of a pandemic event. The Working Group also engaged in dialogue with the industry surrounding potential industry needs for regulatory relief in the event of a pandemic. An emergency preparedness, response, and recovery meeting was held in March 2008 among the FFIEC members and industry trade group representatives. A second meeting was held in September 2008.
Other Coordinated Supervisory Activities

Where applicable, the agencies coordinate their supervisory activities related to insurance, securities, and banking businesses with functional regulators, such as the SEC and state insurance regulators. Periodic cross-sector meetings with representatives of the agencies, the SEC, state banking, insurance, and securities supervisors, and the CFTC are held to identify areas that may require supervisory attention and coordination. In 2008, the agencies consulted with the SEC on the development of recordkeeping rules under the bank broker provisions of the Gramm-Leach-Bliley Act.

The agencies recognize the importance of high quality accounting and auditing standards to the continued safe and sound operation of insured depository institutions and work closely with the SEC, the FASB, the International Accounting Standards Board (IASB), the American Institute of Certified Public Accountants (AICPA), the PCAOB, and the International Auditing and Assurance Standards Board (IAASB) on matters of mutual interest. The agencies routinely collaborate on supervisory guidance to address safety and soundness concerns that arise from accounting and auditing matters. The agencies also work together to provide commentary on proposals by the various accounting and auditing standards setters that may have a significant impact on the banking industry.

The agencies and state banking regulators coordinate supervisory efforts relating to BSA/AML, counter-terrorist financing, and Office of Foreign Assets Control (OFAC) sanctions compliance. These efforts include refining the agencies' risk-focused approach to BSA/AML examinations and working toward increased consistency in supervision across the agencies. The agencies and CSBS meet regularly under the auspices of the FFIEC's BSA/AML Working Group, which is responsible for updating the FFIEC BSA/AML Examination Manual and the content of interagency BSA/AML training. The agencies maintain regular communication with the Treasury Department’s Financial Crimes Enforcement Network (FinCEN) and OFAC regarding BSA/AML matters and sanctions developments, respectively; the agencies are required to provide supervisory information to those Treasury offices in accordance with existing MOUs. The agencies also participate actively in the Bank Secrecy Act Advisory Group, a Treasury-led group with representatives from industries subject to the BSA, regulators, and law enforcement that provides feedback and recommendations on the administration of the BSA.

Insurance specialists from the agencies communicate regularly on an interagency basis with staff of the National Association of Insurance Commissioners, the organization that supports the insurance regulatory officials of the 50 states, the District of Columbia, and the five U.S. territories/commonwealths, on topics of mutual interest to the agencies and state insurance regulators.

International Supervision Coordination

The agencies participate on a number of international supervisory groups, including the BCBS and the Joint Forum, which promote more consistent and uniform supervision of internationally active financial services firms. These groups have a number of work streams underway to evaluate lessons learned and to assess whether additional policy actions are needed in response to recent market events. The agencies also participate in the Association of Supervisors of Banks of the Americas (ASBA), which promotes international standards for
effective banking supervision in the Americas region. In 2008, under the auspices of the BCBS, the biennial International Conference of Bank Supervisors was held in Brussels, Belgium, with all agencies actively participating.

The agencies provide training for staff and officials from non-U.S supervisory authorities and foreign central banks. During the year, the agencies offered training courses exclusively for foreign supervisory authorities in Washington, D.C., and in a number of foreign jurisdictions. Staff at the agencies also took part in technical assistance and training missions led by the International Monetary Fund, the World Bank, the Asian Development Bank, the BCBS, the Financial Stability Institute, South East Asian Central Banks Research and Training Center (SEACEN) and ASBA. This training was concentrated in Latin and South America, Asia, the Middle East, Africa, and Eastern Europe.

In support of the United States Partnership for Financial Excellence in the Middle East and North Africa (MENA), the agencies worked with the U.S. Treasury Department, the U.S. State Department, and the U.S. Agency for International Development to design and deliver training programs aimed at improving banking supervision in the MENA region.

In 2008, the agencies participated in the third annual bi-lateral meeting with representatives of the China Bank Regulatory Commission which focused on sharing supervisory concerns and practices. The agencies also met collectively with the Peoples Bank of China on issues related to bank secrecy and development of methods for deposit insurance and oversight of credit rating agencies. The agencies have also assisted the U.S. Treasury Department in the U.S.-Latin America Private Sector Dialogues. In 2008, two sessions were held in Miami, Florida, and Sao Paulo, Brazil. The meetings focused on developing a communication between U.S. and Latin American banks regarding common issues related to money laundering and terrorist financing.

The agencies supported training activities delivered under the Asia Pacific Economic Cooperation Financial Regulators Training Initiative, which was launched by the U.S. Treasury Department shortly after the Asian crisis. Administrative and funding support for this initiative is provided by the Asian Development Bank. Also, the agencies have supported the State Department through the Terrorist Finance Working Group by providing training for foreign supervisors and technical assistance to designated countries related to money laundering and terrorist financing risks.

Federal and state supervisory agencies coordinate the supervision of U.S. operations of foreign banking organizations through the Foreign Banking Organizations Supervision Program, which involves extensive interagency information sharing and supervisory collaboration. The agencies coordinate with numerous foreign regulatory authorities in the supervision of internationally active companies and, when appropriate, jointly enter into multilateral statements of cooperation with foreign bank supervisors. For example, the agencies are working closely with foreign supervisors to coordinate home/host issues associated with the implementation of the Basel II Capital Accord and in monitoring and assessing the potential effects that recent market disruptions may have on global financial institutions and market operations.
The agencies represent the United States annually at an international information sharing conference focused on technology risks and risk management practices. The 2008 Information Technology Supervisors Group (ITSG) Conference convened in Rome, Italy, and included financial institution supervisory agencies from seventeen countries. Discussion topics included information security, outsourcing, IT auditing, pandemic event planning, and Basel II AMA for operational risk preparedness.

**Formal Joint Examination Programs**

In addition to the coordination mechanisms discussed above, the agencies also have three formal joint examination programs that allow them to leverage and share examination resources and provide consistent supervisory evaluations of activities that often cut across financial institutions.

**Shared National Credit Program**

The Shared National Credit (SNC) program is a joint effort of the agencies to collaborate on reviewing large syndicated loans held by multiple regulated entities. The SNC program reviews selected borrowers using interagency teams to avoid duplicate reviews of the same credit and to ensure consistent treatment. The agencies release to the public aggregate statistical data from the SNC program, which provides a unique perspective on credit quality trends across supervised institutions. In 2008, this program covered 8,746 credits totaling $2.8 trillion in credit commitments to 5,742 borrowers.

The agencies are continuing their work on a SNC modernization initiative to standardize the SNC data collection process, expand SNC data collected from large reporting institutions, apply advanced credit risk benchmarking techniques for common SNC borrowers and portfolios, and provide reporting banks with feedback on their commonly held SNC portfolios. Activities continue on efforts to improve and modernize the program.

**Multi-Regional Data Processing Servicer and Shared Application Software Review Programs**

Under the auspices of the FFIEC’s IT Subcommittee of the Task Force on Supervision, the FFIEC member agencies administer two programs that support the assessment of the technology environment for institutions that (1) outsource their technology services and automated processing activities, or (2) rely on off-the-shelf applications to run their core banking systems. Examinations of service providers under the Multi-Regional Data Processing Servicer (MDPS) program are coordinated on a national level. The program targets organizations considered by the agencies to present the most risk to the financial system due to the mission-critical nature of their services and the breadth of their client base, or because a provider processes work from operations over a sufficiently diverse geographic footprint. Conducting the service provider examinations jointly is a more efficient and effective utilization of the agencies’ IT examiners. Administration by the IT Subcommittee results in a risk-focused exam approach for each firm that addresses its unique risk profile while promoting consistency of supervision across the MDPS firms. Interagency examinations of smaller regional technology service providers are also conducted based on principles of the MDPS program and **FFIEC IT Examination Handbook**, but are administered at a regional level.
In 2008, the IT Subcommittee also updated an agency-based inventory of the foreign-based outsourcing activities of supervised financial institutions. The inventory provided current data on the financial institutions that utilize foreign-based technology service providers, including the volume and types of outsourcing activities, and whether they have access to confidential information.

The Shared Application Software Review program provides a tool for the agencies to review and share assessments of mission-critical software packages, such as wire transfers, capital markets, loans, deposits, and general ledger applications that are used by a large number of financial institutions. These assessments are designed to reduce the time and resources needed to examine mission-critical processing activities at each of the user financial institutions. The IT Subcommittee has initiated a project to enhance this program.

**Interagency Country Exposure Review Committee (ICERC)**

The FDIC, Federal Reserve Board, and OCC formed ICERC in 1979 to ensure consistent treatment of the transfer risk associated with financial institutions’ foreign exposures to public and private sector entities. The OTS joined ICERC in 2006 as an observing non-voting agency. New York State banking regulators also regularly attend the annual ICERC meeting.

At their October 2008 ICERC meeting, the agencies approved changes to the ICERC procedures and rating systems that will make the supervision of cross-border exposures more efficient and risk-focused. Such changes maintain strict regulatory attention to areas of transfer risk, but now also include discussions of regional and global macro trends that might indicate future areas of risk. ICERC continues to determine the appropriate classification and level of reserves for countries that are in default. ICERC decisions and analytical write-ups are used by the agencies to help examination teams assess individual institutions’ cross-border risk.

**Other 2008 Activities**

**Revisions to Risk-Based Capital Standards**

In addition to the capital-related actions discussed previously, the agencies continued their implementation of the advanced approaches under the Basel II Capital Accord, issued in final form by the BCBS in June 2006. The agencies issued a final rule implementing the advanced approaches of Basel II on December 7, 2007. The rule went into effect on April 1, 2008. Institutions may begin transitioning to the new rules after they adopt an implementation plan and have systems that comply with the final rule’s qualification requirements. In January 2008, the agencies published final reporting requirements and reporting templates for institutions that will be adopting the Basel II advanced approaches.

On June 26, 2008, the agencies issued a notice of proposed rulemaking to adopt the standardized approaches of the Basel II Capital Accord. The comment period ended on October 27, 2008. The agencies are reviewing and considering the comments received.
Reserve Board and the OTS published a substantially revised brochure called *A Consumer’s Guide to Mortgage Refinancing* to guide consumers on mortgage refinancing. The publication was prepared in response to a request from the House Committee on Financial Services and in consultation with more than a dozen regulatory agencies and national organizations.

**Revisions to Appraisal and Evaluation Guidelines**

In November, the agencies and NCUA jointly issued for public comment proposed *Interagency Appraisal and Evaluation Guidelines*, which would replace the current version, dated October 27, 1994. The proposed guidelines incorporate recent supervisory issuances and reflect changes in industry practice, uniform appraisal standards and available technologies. The initiative is intended to respond to heightened concerns over appraisals and credit quality.

Building on the existing federal framework, the proposed guidelines clarify risk management principles and internal controls for ensuring depository institutions’ real estate collateral valuations (appraisals and evaluations) are reliable and support their real estate-related transactions. Volatility within certain real estate markets and associated credit risk underscore the importance of independent and reliable collateral valuations. Among other revisions, the proposal includes additional detail on the agencies’ expectations for an independent appraisal and evaluation program. It also includes an expanded discussion of portfolio management techniques. The public comment period ended on January 20, 2009.

**Initiatives to Support the Preservation of Minority Depository Institutions**

In 2008, the agencies sponsored the Interagency Annual Minority Depository Institutions National Conference for minority depository institutions to address a wide range of issues regarding the challenges these institutions face. The conference included discussions with agency principals, senior level policymakers, and industry speakers on current and emerging issues such as the state of the economy as it relates to mortgage markets and the current credit environment. Several breakout sessions were conducted on topics such as credit risk, credit administration, developing profitable lines of business, and the Community Development Financial Institutions Fund certification process. The event provided a unique opportunity for bankers, regulatory officials, and private industry representatives to engage in a comprehensive discourse on challenges, best practices, and upcoming developments relative to ensuring the long-term success and preservation of minority-depository institutions.

**Initiatives to Enhance Consumer Protection Safeguards and Disclosures**

In 2008, the agencies continued to closely coordinate rulemaking and other initiatives to enhance various consumer protection safeguards and disclosures. These included the following:

- **Proposed Revisions to Interagency Questions and Answers Regarding Flood Insurance.** In March 2008, the agencies, along with the NCUA and Farm Credit System, requested public comment on new and revised interagency questions and answers regarding flood insurance. The agencies proposed substantive as well as technical revisions to existing guidance to help financial institutions meet their responsibilities under federal flood insurance legislation and to increase public understanding of the flood insurance regulations. Final action on these proposed revisions is expected this year.
• Regulations and Guidelines of the Fair and Accurate Credit Transactions Act of 2003 (FACT Act).
  o In November 2007, the agencies, along with the FTC, issued final regulations and guidance to help prevent identity theft. These regulations and guidelines were effective on January 1, 2008, with compliance required by November 1, 2008.
  o The agencies and the FTC also proposed regulations and guidelines intended to enhance the accuracy and integrity of information furnished to consumer reporting agencies (CRAs) in December 2007. The agencies and the FTC expect to finalize these issuances in 2009.
  o In May 2008, the Federal Reserve Board and the FTC proposed regulations that generally would require a creditor to provide a consumer with a risk-based pricing notice when, based in whole or in part on the consumer’s credit report, the creditor offers or provides credit to the consumer on terms less favorable than the term it offers or provides to other consumers. The agencies expect to finalize these regulations in 2009.
• Final Regulations on Unfair or Deceptive Acts or Practices. In December 2008, using their authority under the Federal Trade Commission Act, the Federal Reserve Board, the OTS, and the NCUA finalized regulations that prohibit certain unfair credit card practices. For example, the rules will protect consumers from unexpected interest charges, including increases in the rate during the first year after account opening and increases in the rate charged on pre-existing card balances, forbid banks from imposing interest charges using the “two-cycle” billing method, require that consumers receive a reasonable amount of time to make their credit card payments, prohibit the use of payment allocation methods that unfairly maximize interest charges, and address subprime credit cards by limiting the fees that reduce the amount of available credit. Compliance is required by July 1, 2010, although the agencies strongly encouraged institutions to implement them as soon as reasonably possible.
• Updated Distressed and Underserved Nonmetropolitan Middle Income Geographies. In May 2008, the agencies announced the availability of the 2008 list of distressed or underserved nonmetropolitan middle-income geographies where bank revitalization or stabilization activities will receive CRA consideration as “community development.” As in past releases, the 2008 list incorporates a one-year lag period for geographies that were designated as distressed or underserved in 2007, but were not designated as such in the 2008 release. Geographies subject to the one-year lag period are eligible to receive consideration for community development activities for the 12 months following publication of the 2008 list. “Distressed nonmetropolitan middle-income geographies” and “underserved nonmetropolitan middle-income geographies” are designated by the agencies in accordance with their CRA regulations.
• Improved Financial Privacy Notices. The agencies are working with the CFTC, the FTC, and the SEC on an interagency initiative to design and test a financial privacy notice that is clear and that consumers can understand and use to exercise their preferences for information sharing. The interagency working group initiated a project to develop a prototype privacy notice and test the effectiveness of that notice. The design work was completed in 2006. The agencies then arranged to test the effectiveness of the newly-designed form; this work was done in the late summer 2008, and results are forthcoming. The agencies are in the process of finalizing the model form, which is a part of the privacy rules that implement requirements of the Gramm-Leach-Bliley Act.
• **Report to Congress on Information Sharing Practices with Affiliates.** Section 214(e) of the Fair and Accurate Credit Transaction Act of 2003 directs the agencies, as well as the FTC, to report to the Congress on the information sharing practices of financial institutions, creditors, or users of consumer reports with their affiliates. These agencies are required to jointly submit the report together with any recommendations for legislative or regulatory action. During 2008, each agency conducted a survey of a limited number of regulated entities under its supervision. The agencies will review the survey results and report to the Congress later this year.

• **Identity Theft Brochure.** In December, the agencies and NCUA published a brochure titled: *You Have the Power to Stop Identity Theft*. The brochure illustrates a method of identity theft called phishing and provides a number of measures consumers should take to minimize their risks of victimization. The brochure further informs consumers of actions to take should they become victim to identity theft.

**Improving Consumer Complaint Service**

In 2008, the Interagency Consumer Complaint Working Group, under the auspices of the FFIEC, continued efforts to simplify the complaint filing process for consumers. These efforts have included the establishment of a “Consumer Information Center” through the addition of a consumer webpage to the existing FFIEC website. The webpage will assist consumers in identifying the appropriate regulator and will provide links to the appropriate regulator’s consumer complaint webpage. This new webpage became operational on December 1, 2008. The agencies also have issued a Request for Information to solicit information from federal government and private sector third party vendors for the implementation of a call center using a unique 1-800 number to assist consumers in identifying the appropriate banking regulator. The call center number would not replace existing agency 1-800 numbers but will merely direct all calls to the appropriate regulator.

In addition, the working group continues to meet regularly to share complaint data and discuss potential ways that the data might be used to identify emerging issues and aid in the development of consumer education materials. The group, which includes representatives from the CSBS, developed and held a national conference in April 2009.

**Updated Interagency Examination Procedures**

The agencies published a number of new or updated examination procedures. These included the following:

• **FFIEC Business Continuity Planning Booklet.** In March 2008, the FFIEC issued an update to this booklet, which is included in the series of booklets that form the *FFIEC Information Technology Examination Handbook*. The revised booklet includes enhancements to the business impact analysis and testing discussions and addresses emerging threats such as pandemic planning and lessons learned from Hurricanes Katrina and Rita. The booklet also stresses the responsibilities of each institution’s board and management to address business continuity planning with an enterprise-wide perspective by considering technology, business operations, communications, and testing strategies for the entire institution.

• **FFIEC Guidance on Risk Management of Remote Deposit Capture.** In January 2009, the FFIEC issued guidance on remote deposit capture (RDC) systems. The guidance addresses
the essential elements of RDC risk management: identifying, assessing, and mitigating risk, as well as measuring and monitoring residual risk exposure. The guidance also discusses the responsibilities of senior managers in overseeing the development, implementation, and operation of RDC in their financial institutions.

- **Talent Amendment.** In July 2008, the agencies finalized and issued examination procedures to be used when determining compliance with regulations issued by the Department of Defense (DoD) regarding limitations on consumer credit extended to service members and their dependents. The regulations implement the consumer protection provisions of the John Warner National Defense Authorization Act for Fiscal Year 2007. The DoD regulations cover payday loans, motor vehicle title loans, and tax refund anticipation loans, as defined by DoD, and apply to all persons engaged in the business of extending such credit and their assignees.


- **Fair Credit Reporting Act.** In 2008, the agencies approved examination procedures for regulations implementing several sections of the FCRA, as amended by the FACT Act. The examination procedures addressed regulatory provisions that focused on the duties of users of consumer reports regarding address discrepancies; duties of financial institutions and creditors regarding the detection, prevention, and mitigation of identity theft; duties of card issuers regarding changes of address; and duties of financial institutions regarding affiliate marketing practices.

- **Updated Procedures for Electronic Consumer Disclosures.** In August 2008, examination procedures were updated for Regulations E (Electronic Fund Transfers), Z (Truth in Lending) and M (Consumer Leasing) to reflect regulatory changes that clarified requirements for electronic consumer disclosures.

**Initiatives to Reduce Unnecessary Regulatory Burden and Enhance Efficiency**

Section 604 of the Financial Services Regulatory Relief Act of 2006 requires the agencies to review the content of “Reports of Condition” within one year of enactment and then to use the results as a basis for eliminating or reducing any unnecessary or inappropriate information collected in these reports. The FFIEC’s Task Force on Reports surveyed 165 user groups within the agencies and CSBS to identify the purposes for which each group uses each reported data item, the extent of usage for each item, and the frequency with which each item is needed. The survey results were evaluated and reported to the FFIEC principals in October 2007. In 2008, the Task Force considered the information received from the survey to determine where possible burden-reducing revisions may be made in the reports of condition. Based on the Task Force’s evaluation, in September 2008, the agencies proposed reductions to the Reports of Condition and Income that became effective as of March 31, 2009.
Conclusion

The agencies are committed to maintaining regulatory and supervisory processes that maximize efficiency, while eliminating unnecessary costs to institutions, maintaining safety and soundness, and safeguarding consumers. The agencies have worked in the past year—and will continue to work—to improve the supervisory process by reducing regulatory burden, promoting consistency, eliminating duplicative activities in the examination process, and promoting greater efficiency in the use of resources. Coordination and streamlining efforts have been successful thus far, and we intend to continue exploring ways in which the agencies can work together, leverage each other’s efforts, and ease the regulatory burden on the financial institutions the agencies supervise.

Sincerely,

Daniel K. Tarullo, Governor
Board of Governors of the Federal Reserve System

Sheila C. Bair, Chairman
Federal Deposit Insurance Corporation

John C. Dugan
Comptroller of the Currency

John E. Bowman, Acting Director
Office of Thrift Supervision