Announcements

Chairman Alan Greenspan Names Governor Donald L. Kohn as Designee

Federal Reserve Board Chairman Alan Greenspan named on August 17, 2005, Governor Donald L. Kohn to replace Governor Edward M. Gramlich as the Chairman's designee on four federal loan guarantee boards, effective September 1, 2005. Governor Gramlich's resignation from the Board of Governors of the Federal Reserve System, became effective August 31, 2005.

Governor Kohn will serve as chairman of the Air Transportation Stabilization Board, the Emergency Steel Loan Guarantee Board, and the Emergency Oil and Gas Loan Guarantee Board, and as a member of the LOCAL Television Loan Guarantee Board.

Statement by Chairman Alan Greenspan on the Appointment of Ben S. Bernanke

"The President has made a distinguished appointment in Ben Bernanke. Ben comes with superb academic credentials and important insights into the ways our economy functions. I have no doubt that he will be a credit to the nation as Chairman of the Federal Reserve Board."

Change in Tentative Federal Open Market Committee Meeting Schedule for 2006

The Federal Open Market Committee announced on September 9, 2005, a change in its tentative meeting schedule for 2006.

The Committee plans to hold its first scheduled meeting of the year on Tuesday, January 31, 2006. It had previously planned to meet for two days: January 31 and February 1. This schedule change avoids a meeting that spans the terms of two Chairmen.

In keeping with past practice, Chairman Greenspan plans to attend this meeting.

Federal Open Market Committee Statements

The Federal Open Market Committee decided on September 20, 2005, to raise its target for the federal funds rate 25 basis points, to 3¾ percent.

Output appeared poised to continue growing at a good pace before the tragic toll of Hurricane Katrina. The widespread devastation in the Gulf region, the associated dislocation of economic activity, and the boost to energy prices imply that spending, production, and employment will be set back in the near term. In addition to elevating premiums for some energy products, the disruption to the production and refining infrastructure may add to energy price volatility.

While these unfortunate developments have increased uncertainty about near-term economic performance, it is the Committee's view that they do not pose a more persistent threat. Rather, monetary policy accommodation, coupled with robust underlying growth in productivity, is providing ongoing support to economic activity. Higher energy and other costs have the potential to add to inflation pressures. However, core inflation has been relatively low in recent months and longer-term inflation expectations remain contained.

The Committee perceives that, with appropriate monetary policy action, the upside and downside risks to the attainment of both sustainable growth and price stability should be kept roughly equal. With underlying inflation expected to be contained, the Committee believes that policy accommodation can be removed at a pace that is likely to be measured. Nonetheless, the Committee will respond to changes in economic prospects as needed to fulfill its obligation to maintain price stability.

Voting for the FOMC monetary policy action were: Alan Greenspan, Chairman; Timothy F. Geithner, Vice Chairman; Susan S. Bies; Roger W. Ferguson, Jr.; Richard W. Fisher; Donald L. Kohn; Michael H. Moskow; Anthony M. Santomero; and Gary H. Stern. Voting against was Mark W. Olson, who preferred no change in the federal funds rate target at this meeting.

In a related action, the Board of Governors unanimously approved a 25-basis-point increase in the discount rate, to 4¾ percent. In taking this action, the Board approved the requests submitted by the Boards of Directors of the Federal Reserve Banks of Boston, New York, Philadelphia, Richmond, Chicago, Minneapolis, and Kansas City.

The Federal Open Market Committee decided on November 1, 2005, to raise its target for the federal funds rate 25 basis points, to 4 percent.

Elevated energy prices and hurricane-related disruptions in economic activity have temporarily depressed output and employment. However, monetary policy accommodation, coupled with robust underlying growth in productivity, is providing ongoing support to economic activity that will likely be augmented by planned rebuilding in the hurricane-affected areas. The cumulative rise in energy and other costs have the potential to add to inflation pressures; however, core inflation has been relatively low in recent months and longer-term inflation expectations remain contained.

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In a related action, the Board of Governors unanimously approved a 25-basis point increase in the discount rate, to 5 percent. In taking this action, the Board approved the requests submitted by the Boards of Directors of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco.

Increase in Discount Rate

The Federal Reserve Board approved on September 20, 2005, an action by the Board of Directors of the Federal Reserve Bank of San Francisco, increasing the discount rate at the Bank from 4½ percent to 4¾ percent.

The Board also approved an action by the Board of Directors of the Federal Reserve Bank of St. Louis, increasing the discount rate at the Bank from 4½ percent to 4¾ percent, effective September 21, 2005.

On September 22, 2005, the Federal Reserve Board approved actions by the Boards of Directors of the Federal Reserve Banks of Cleveland, Atlanta, and Dallas, increasing the discount rate at the Banks from 4½ percent to 4¾ percent.

Proposed Amendments to Regulation E

The Federal Reserve Board published on August 19, 2005, proposed amendments to Regulation E (Electronic Fund Transfers), which implements the Electronic Fund Transfer Act, and to the regulation's official staff commentary that clarify the disclosure obligations of automated teller machine (ATM) operators with respect to fees imposed on a consumer for initiating an electronic fund transfer or a balance inquiry at an ATM. The commentary interprets the requirements of Regulation E to facilitate compliance primarily by financial institutions that offer electronic fund transfer services to consumers.

The regulation provides that an ATM operator that charges a fee for initiating an electronic fund transfer or balance inquiry must post notices at ATMs that a fee will be imposed. The proposed revisions would clarify the intent of the rule that ATM operators can satisfy the requirement by providing a notice that a fee "may" be imposed if there are circumstances under which some consumers would not be charged for services. ATM operators must continue to provide the consumer with a separate notice, either on the screen of the ATM or on paper, that a fee will be imposed and the amount of the fee, before the consumer is committed to paying a fee.

The Board is continuing to consider other issues that were addressed in its proposed September 2004 update to Regulation E.

Comments were due on or before October 7, 2005.

Request for Comment on Regulation Z

The Federal Reserve Board, on October 11, 2005, issued for public comment a second advance notice of proposed rulemaking (ANPR) concerning the open-end (revolving) credit rules of the Board's Regulation Z (Truth in Lending), which implements the Truth in Lending Act (TILA). The second ANPR solicits public comments on ways the Board should implement amendments to TILA made by the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 (Bankruptcy Act). The amendments principally deal with open-end credit accounts and require new disclosures on periodic statements and on credit card applications and solicitations.

The Board periodically reviews each of its regulations to update them, if necessary. In December 2004 the Board published an initial ANPR to commence a comprehensive review of the open-end credit rules and to solicit comment on a variety of issues relating to the format of open-end credit disclosures, the content of disclosures, and the substantive protections provided under the regulation. The comment period closed in March 2005.

In April 2005 the Bankruptcy Act was enacted, which contains several amendments to TILA, including provisions requiring new disclosures for open-end credit accounts. The Board plans to implement the amendments as part of its review of Regulation Z and is publishing this second ANPR to reopen and extend the public comment period. Combining the two rulemakings will allow the Board to coordinate the changes to the TILA disclosures and should impose less regulatory burden on creditors.

Comments were to be received on or before December 16, 2005.

Amendment to Regulation CC, Appendix A

The Federal Reserve Board announced on October 12, 2005, amendments to appendix A of Regulation CC (Availability of Funds and Collection of Checks) that reflect the restructuring of the Federal Reserve's check-processing operations in the Fourth, Tenth, and Eleventh Districts. These amendments are part of a series of amendments to appendix A that will take place through the first quarter of 2006, associated with the previously announced restructuring of the Reserve Banks' check-processing operations.

Appendix A provides a routing symbol guide that helps depository institutions determine the maximum permissible hold periods for most deposited checks. As of December 10, 2005, the Oklahoma City Branch office of the Federal Reserve Bank of Kansas City will no longer process checks, and depository institutions that were assigned to that office have been reassigned to the head office of the Federal Reserve Bank of Dallas. As of January 21, 2006, banks with 0442 and 2442 routing symbols, currently assigned to the Columbus office of the Federal Reserve Bank of Cleveland, will be reassigned to that Reserve Bank's Cincinnati Branch office. As of February 11, 2006, banks with 0440, 2440, 0441, and 2441 routing symbols, also currently assigned to the Columbus office, will be reassigned to the Cleveland Reserve Bank's head office and the Columbus office will cease processing checks. The Federal Reserve Banks' transfer of the Columbus office's check-processing operations to both the Cincinnati Branch office and the Cleveland head office differs from earlier announcements indicating that the entirety of the Columbus office's operations would be transferred to the Cleveland head office. The Reserve Banks believe that this arrangement will better serve the needs of affected depository institutions.

To ensure that the information in appendix A accurately describes the structure of check-processing operations within the Federal Reserve System, the final rule revises the lists of routing symbols associated with Federal Reserve offices to reflect the reassignments discussed above. Each appendix A revision will be effective on the date of the underlying check-processing change. The Board is providing earlier-than-usual notice of the amendments to the appendix A routing symbol lists under the Federal Reserve Bank of Cleveland because these amendments differ from earlier announcements.

Proposal to Expand the Definition of a Small Bank Holding Company

The Federal Reserve Board proposed on September 7, 2005, expanding the definition of a small bank holding company (BHC) under the Board's Small Bank Holding Company Policy and the Board's risk-based and leverage capital guidelines for bank holding companies. The policy statement facilitates the transfer of ownership of small community banks by permitting debt levels at small BHCs that are higher than what would be permitted for larger BHCs. Because small BHCs may, consistent with the policy statement, operate at a level of leverage that generally is inconsistent with the capital guidelines, the capital guidelines provide an exemption for small BHCs.

The policy statement and the capital guidelines define a small BHC as one with consolidated assets of less than $150 million. However, a small BHC with consolidated assets of less than $150 million can be ineligible for treatment under the policy statement if it meets certain qualitative criteria.

The Board is proposing to raise the small BHC asset-size threshold from $150 million to $500 million and to amend the related qualitative criteria for determining eligibility as a small BHC for the purposes of the policy statement and the capital guidelines. The proposed amendments to the threshold and the qualitative criteria are designed to reflect changes in the industry since the initial issuance of the policy statement in 1980.

The Board is also proposing changes to the policy statement that would clarify the treatment of subordinated debt associated with issuances of trust preferred securities.

The proposal indicates that such subordinated debt would be considered debt for most purposes under the policy statement, subject to a transition period.

In the near term, the Board anticipates issuing a separate request for public comment on a proposal that would make related changes in regulatory financial reporting requirements. Under that proposal, qualifying small BHCs would only be required to file parent-only financial data on a semiannual basis (FR Y-9SP).

Board Statement on Supervisory Practices for Financial Institutions and Borrowers Affected by Hurricane Katrina

The Federal Reserve Board on September 15, 2005, encouraged banking organizations to work with borrowers and other customers in communities affected by Hurricane Katrina. Additionally, the Board reminded banking organizations that regulatory flexibility is available to facilitate recovery in areas affected by this disaster.

Orders Exempting Bank Transfer Agents Affected by Hurricane Katrina

The federal banking agencies announced on September 28, 2005, the issuance of orders granting emergency relief to bank transfer agents affected by Hurricane Katrina. The orders cover national banks, state member banks, state nonmember banks, bank holding companies, and bank subsidiaries. The relief applies retroactively for the period beginning August 29, 2005, through October 17, 2005.

Transfer agents maintain records related to the issuance and transfer of securities and provide operational assistance in the sale and transfer of ownership of securities. These agents also may disburse dividends and send corporate information, including proxies, to holders of securities. The storm and its aftermath have resulted in a lack of communications, facilities, and available staff, that could hamper the efforts of transfer agents to access securities, records, and funds, and to process securities transactions.

To address compliance issues caused by Hurricane Katrina and its aftermath, the orders conditionally exempt banks, bank holding companies, and bank subsidiaries acting as transfer agents from compliance with section 17A of the Securities Exchange Act of 1934. These orders, which are being issued by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency, complement an order issued by the Securities and Exchange Commission on September 15, 2005, that exempts transfer agents under the SEC's jurisdiction from the requirements of section 17A of the Securities Exchange Act of 1934.

Any transfer agents or other persons requiring additional assistance are encouraged to contact staff at the agencies for individual relief or interpretive guidance.

Waiver of Appraisal Requirements for Financial Institutions Affected by Hurricanes Katrina and Rita

The Federal Reserve Board announced its approval on October 6, 2005, of an order waiving its appraisal requirements for three years for regulated financial institutions affected by Hurricanes Katrina and Rita. This action was coordinated with the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, and the National Credit Union Administration, collectively referred to as ''the agencies.''

The waiver covers transactions involving real estate located in certain Alabama, Mississippi, and Texas counties and Louisiana parishes that have been designated by the Federal Emergency Management Agency as qualifying for ''Individual and Public Assistance'' (all categories) and ''Individual and Public Assistance'' (Categories A and B) as a result of Hurricanes Katrina and Rita. A listing of the designated disaster areas is on the Board's web site at www.federalreserve.gov/boarddocs/press/bcreg/2005/200510062/attachment.pdf. Exceptions for the major disaster declared due to Hurricane Katrina will expire on August 29, 2008, in Alabama, Mississippi, and Louisiana, and for Hurricane Rita on September 24, 2008, in Louisiana and Texas.

To qualify for the waiver, a financial institution needs to document that: (1) the transaction involves real property located in the designated disaster areas; (2) the property involved was directly affected by the major disaster or the transaction would facilitate recovery from the disaster(s); (3) there is a binding commitment to fund the transaction that is made within three years after the date the major disaster was declared; and (4) the value of the real property supports the institution's decision to enter into the transaction.

This waiver is being issued pursuant to the authority granted to the agencies under the Depository Institutions Disaster Relief Act of 1992. The act allows for the appraisal requirements of Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act and the agencies' appraisal regulations to be waived for up to thirty-six months when the President of the United States determines that a major disaster exists and the agencies determine that such waiver would both facilitate recovery in the disaster area and be consistent with safety and soundness.

Annual Adjustments for Reserve Calculations and Deposit Reporting

The Federal Reserve Board announced on October 4, 2005, the annual indexing of the low reserve tranche and of the reserve requirement exemption amount for 2006. These amounts are used in the calculation of reserve requirements of depository institutions. The Board also announced the annual indexing of the cutoff level for nonexempt deposit and the reduced reporting limit that will be used to determine deposit reporting panels, effective September 2006.

All depository institutions must hold a percentage of certain types of deposits as reserves in the form of vault cash, as a deposit in a Federal Reserve Bank, or as a deposit in a pass-through account at a correspondent institution. Reserve requirements currently are assessed on the depository institution's net transaction accounts (mostly checking accounts). Depository institutions must also regularly submit reports of their deposits and other reservable liabilities.

For reserve requirements in 2006, the first $7.8 million of net transaction accounts (up from $7.0 million in 2005), will be exempt from reserve requirements. A 3 percent reserve ratio will be assessed on net transaction accounts more than $7.8 million up to and including $48.3 million (up from $47.6 million in 2005). A 10 percent reserve ratio will be assessed on net transaction accounts in excess of $48.3 million.

The annual indexing of the low reserve tranche and the reserve requirement exemption amount is based on growth in net transaction accounts and total reservable liabilities, respectively, at all depository institutions between June 30, 2004, and June 30, 2005.

For depository institutions that report weekly, the low reserve tranche and the reserve requirement exemption amount for 2006 will first apply to the fourteen-day reserve computation period that began Tuesday, November 22, 2005, and the corresponding fourteen-day reserve maintenance period that begins Thursday, December 22, 2005.

For depository institutions that report quarterly, the low reserve tranche and the reserve requirement exemption amount for 2006 will first apply to the seven-day reserve computation period that begins Tuesday, December 20, 2005, and the corresponding seven-day reserve maintenance period that begins Thursday, January 19, 2006.

The Board also announced increases in two other amounts, the nonexempt deposit cutoff level and the reduced reporting limit, that are used to determine the frequency with which depository institutions must submit deposit reports. The *Federal Register* notice containing a description of the new boundaries for deposit reporting that will be effective September 2006 is on the Board's web site at www.federalreserve.gov/boarddocs/press/bcreg/2005/20051004/attachment.pdf.

Proposed Revisions to 1998 Basel Capital Accord (Basel I)

The Federal Reserve Board decided on October 6, 2005, to request public comment on proposed revisions to the U.S. risk-based capital standards for banking organizations. These current standards are based upon the 1988 Basel Capital Accord, also known as Basel I.

The proposed revisions should more closely align risk-based capital requirements with the risk inherent in various exposures and could mitigate competitive inequalities that may arise as new capital rules, known as Basel II, are implemented for the most complex internationally active banking organizations.

The modifications that the Board, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision are considering would apply to banks, bank holding companies, and savings associations. The modifications will be set forth in an advanced notice of proposed rulemaking to be published shortly in the *Federal Register*.

In considering possible revisions, the agencies are seeking to enhance risk sensitivity without undue complexity or regulatory burden.

Specifically, the agencies are soliciting comment on:

- increasing the number of risk-weight categories,
- permitting greater use of external ratings as an indicator of credit risk for exposures for purposes of determining the appropriate risk weight,
- expanding the types of guarantees and collateral that may be recognized,
- modifying the risk weights associated with one-to-four family residential mortgages,
- applying credit conversion factors to certain types of commitments, as well as the appropriate risk-based capital treatment of certain securitizations with early-amortization provisions, and
- modifying the risk weights for loans that are ninety days or more past due or in non-accrual status, as well as for certain commercial real estate exposures, and other retail and commercial exposures.

Modifications to Methodology Used to Calculate Private-Sector Adjustment Factor

The Federal Reserve Board announced on October 12, 2005, modifications to the methodology used to calculate the private-sector adjustment factor (PSAF), which is used in setting fees for certain payment services provided to depository institutions.

The Monetary Control Act of 1980 requires that the Board establish fees for priced services provided to depository institutions to recover, over the long run, all direct and indirect costs actually incurred as well as imputed costs that would have been incurred, including financing costs, taxes, and certain other expenses, and the return on equity (profit) that would have been earned if a private business firm provided the services. The methodology underlying the PSAF is reviewed periodically to ensure that it is appropriate and relevant in light of changes that may have occurred in Reserve Bank priced-services activities, accounting standards, finance theory, and regulatory and business practices.

Beginning with the 2006 price setting, the Board will use only a capital asset pricing model (CAPM) to determine a return on equity (ROE) that reflects the return earned by private-sector service providers. Previously the ROE was calculated by averaging the results of three analytical models, including the CAPM. The CAPM ROE will be based on the rate of return of the overall market, as opposed to the long-standing practice of identifying a priced-services peer group.

Fee Schedules for Federal Reserve Bank Priced Services

The Federal Reserve Board approved fee schedules on November 2, 2005, for Federal Reserve Bank payment services for depository institutions (priced services), effective January 3, 2006.

The Reserve Banks project that they will recover 102.5 percent of all their priced services costs in 2006 and estimate that they will recover 103.6 percent of these costs in 2005.

From 1995 to 2004 the Reserve Banks recovered 97.5 percent of priced services costs, including operating costs, imputed costs, and targeted return on equity (or net income), which amounts to a ten-year total net income of slightly less than $550 million.

Since the mid-1990s there has been a national trend away from the use of checks and toward the use of more efficient electronic payment alternatives. In response to this trend, the Reserve Banks have undertaken several initiatives to improve operational efficiencies and reduce costs. In particular, as part of their check-restructuring initiative, the Reserve Banks have reduced the number of Federal Reserve check-processing locations from forty-five in 2003 to twenty-seven and have announced plans to further reduce the number to twenty-two sites by the end of 2006. In 2006 the Reserve Banks are expected to realize full-year operational efficiencies and cost savings associated with the check restructurings that have already occurred and partial-year savings associated with the restructurings in 2006. In addition, the Reserve Banks have reduced costs in a variety of support and overhead areas and, as a result, the Reserve Banks expect to fully recover the costs of providing priced services in 2006.

Overall, the price level for Federal Reserve priced services will increase about 3 percent in 2006 from 2005. This increase reflects an approximately 5 percent rise in paper check service fees combined with a 1 percent decrease in fees for the Reserve Banks' electronic payment services. The 2006 fee schedule for each of the priced services, except the check service, which is more complex, is on the Board's web site at www.federalreserve.gov/paymentsystems/pricing/2006repricingfedreg.pdf. Fee schedules for all priced services are available on the Federal

Reserve Banks' financial services web site at www.frbservices.org.

In addition the Board approved the 2006 private-sector adjustment factor (PSAF) for Reserve Bank priced services of $117.7 million. The PSAF is an allowance for income taxes and other imputed expenses that would have to be paid and profits that would have to be earned if the Reserve Banks' priced services were provided by a private business. The Monetary Control Act of 1980 requires that the Federal Reserve establish fees to recover the costs of providing priced services, including the PSAF, over the long run, to promote competition between the Reserve Banks and private-sector service providers.

List of Distressed and Underserved Nonmetropolitan Middle-Income Geographies

The federal banking agencies announced on August 30, 2005, the availability of the list of distressed and underserved nonmetropolitan middle-income geographies in which bank revitalization or stabilization activities will receive consideration under the Community Reinvestment Act (CRA) as ''community development'' pursuant to the revised CRA rules issued by the agencies on August 2, 2005. The list is available on the Federal Financial Institutions Examination Council (FFIEC) web site (www.FFIEC.gov/cra).

''Distressed nonmetropolitan middle-income'' geographies are those located in counties that meet one or more triggers that generally reflect the ''distress criteria'' used by the Community Development Financial Institutions Fund. The distress triggers are: (1) an unemployment rate of at least 1.5 times the national average; (2) a poverty rate of 20 percent or more; and (3) a population loss of 10 percent or more between the previous and most recent decennial census, or a net migration loss of 5 percent or more over the five-year period preceding the most recent census. The agencies will utilize annual information where possible.

''Underserved nonmetropolitan middle-income geographies'' must meet criteria for population size, density, and dispersion that indicate that an area's population is sufficiently small, thin, and distant from a population center such that the geography is likely to have difficulty in financing the fixed costs of essential community needs. The agencies will use as the basis for these designations the ''urban influence codes'' numbered 7, 10, 11, and 12 that are maintained by the Economic Research Service of the United States Department of Agriculture.

The Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency will update the list of distressed and underserved nonmetropolitan middle-income geographies annually, and will post updates on the FFIEC web site by April 1 of each year. To the extent that changes occur, the agencies are proposing adoption of a one-year lag period, which would be in effect for the calendar year following the date when a census tract designated as distressed or underserved is removed from the list. Revitalization or stabilization activities undertaken during the lag period would still be considered as community development activities if they meet the primary purpose of community development.

Insured Depository Institutions Encouraged to Assist Displaced Customers

The Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision (the agencies), and the Conference of State Bank Supervisors asked insured depository institutions on September 1, 2005, to consider all reasonable and prudent steps to assist customers' and credit union members' cash and financial needs in areas affected by Hurricane Katrina. The agencies are working with state regulatory agencies, financial industry trade groups, and affected financial institutions to identify customer needs and monitor institutions' restoration of services.

The agencies remind the public that deposit insurance is in full force and that money in FDIC- or NCUA-insured accounts is protected by federal deposit insurance. The agencies also note that a priority is to provide customer access to deposit accounts and other financial assets. Many financial institutions are implementing contingency plans, including procedures for consumers to have access to ATMs and use of their debit cards.

The financial services community through its various trade associations is working together to assist affected institutions. The agencies encourage financial institutions to assist affected institutions and consider all reasonable and prudent actions that could help meet the critical financial needs of their customers and their communities. To the extent consistent with safe and sound banking practices, such actions may include the following:

- waiving ATM fees for customers and noncustomers
- increasing ATM daily cash withdrawal limits
- easing restrictions on cashing out-of-state and noncustomer checks
- waiving overdraft fees as a result of paycheck interruption
- waiving early withdrawal penalties on time deposits
- waiving availability restrictions on insurance checks
- allowing loan customers to defer or skip some payments
- waiving late fees for credit card and other loan balances due to interruption of mail and, or billing statements or the customer's inability to access funds
- easing credit card limits and credit terms for new loans
- delaying delinquency notices to the credit bureaus

The agencies, in consultation with FinCEN, also encourage depository institutions to be reasonable in their approach to verifying the identity of individuals temporarily displaced by Hurricane Katrina. Under the Customer Identification Program requirement of the Bank Secrecy Act, depository institutions must obtain, at a minimum, an individual's name, address, date of birth, and taxpayer identification number or other acceptable identification number before opening an account. The Customer Identification Program requirement provides depository institutions with flexibility to design a program that uses documents, nondocumentary methods, or a combination to verify a customer's identity. Moreover, the regulation provides that verification of identity may be completed within a reasonable time after the account is opened. Recognizing the urgency of this situation, the agencies encourage depository institutions to use nondocumentary verification methods for affected customers that may not be able to provide standard identification documents, as permitted under the regulation. A depository institution in the affected area, or dealing with new customers from the affected area, may amend its Customer Identification Program immediately and obtain required board approval for program changes as soon as practicable.

The agencies note that these measures could help customers recover their financial strength and contribute to the health of the local community and the long-term interest of financial institutions and their customers when undertaken in a prudent manner. The agencies recognize that the needs and situation of each financial institution and its community and customers are unique. The actions above may not be feasible or desirable for all institutions and many institutions may provide additional services from those identified.

The agencies will continue to closely monitor the situations and needs of insured depository institutions and their customers and will provide additional guidance, as required, to help address those needs. Institutions needing assistance in dealing with customers affected by the hurricane should contact their primary supervisors.

Data Show Continued Improvement in Credit Quality

The quality of syndicated bank credits showed continued improvement this year, according to the Shared National Credit (SNC) review released on September 15, 2005, by federal bank and thrift institution regulators. The review, which encompassed credits of at least $20 million that are shared by three or more financial institutions, also found that most industries exhibit much improved credit quality from peak problem levels experienced only a few years ago.

The results—reported by the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision—are based on analyses prepared in the second quarter of 2005 and reflect business and economic conditions at that time.

Total classified credit commitments (those rated as either substandard, doubtful, or loss) fell $21.5 billion, or 29 percent, from the previous year, compared with a net decrease of $78.2 billion, or 51 percent, the year before. Commitments rated special mention decreased $7.0 billion, or 21 percent, in contrast to 2004 when they fell $22.4 billion, or 41 percent. None of these figures includes the effects of hedging or other techniques that organizations often employ to mitigate risk.

The ratio of classified credit commitments to total commitments fell to 3.2 percent, the lowest level since 1999. Total adversely rated credits (classified and special mention combined) also fell considerably to 4.8 percent of total commitments.

Revised Plan for Implementation of Basel II Framework

The four federal banking agencies (the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision) announced on September 30, 2005, their revised plans for the U.S. implementation of the "International Convergence of Capital Measurement and Capital Standards: A Revised Framework," otherwise known as Basel II. The agencies previously announced on April 29, 2005, that they were delaying issuance of a notice of proposed rulemaking (NPR), pending additional analysis of the quantitative impact study (QIS4) submissions. The agencies intend to move forward with an NPR for domestic implementation of Basel II, but plan to introduce additional prudential safeguards in the NPR to address concerns identified in the analysis of the results of the QIS4 conducted with the industry. The agencies expect that the U.S. Basel II proposal will be available in the first quarter of 2006.

The agencies' Basel II implementation plan includes the following elements:

- The agencies expect to propose a revised implementation timeline for Basel II. Under this revised timeline, the first opportunity for a U.S. banking institution to conduct a parallel run would be January 2008. In addition, U.S. institutions adopting the Basel II-based capital rules would be subject to a minimum three-year transition period during which the agencies would apply limits on the amount by which each institution's risk-based capital could decline with the application of Basel II. These limits would be implemented through floors that are intended to be simpler in design and more conservative in effect than those set forth in Basel II.

For institutions that plan to implement the Basel II framework at the earliest possible implementation date, the following timetable and transitional arrangements would be proposed in the NPR:

Year	Transitional Arrangements
2008	Parallel Run
2009	95% floor
2010	90% floor
2011	85% floor

- An institution's primary federal supervisor would assess that institution's readiness to operate under the Basel II-based capital rules consistent with the above schedule. As part of this assessment, the primary federal supervisor will make a decision on the termination of the floors after 2011 on an institution-by-institution basis.
- Using information received during the U.S. Basel II implementation process (including the transition period), the agencies will continue to evaluate the effectiveness of the Basel II-based capital rules. The agencies anticipate that there will be further revisions to the U.S. Basel II-based capital rules before the termination of the floors.
- The agencies will retain both the existing Prompt Corrective Action and leverage capital requirements in the proposed domestic implementation of Basel II.

The agencies expect to publish an advance notice of proposed rulemaking for notice and comment on possible modifications to the risk-based capital rules for banks that do not become subject to Basel II-based capital rules. The revised transition schedule for the domestic implementation of the Basel II framework will permit industry consideration of and public comment on these two rulemaking initiatives along similar timeframes.

Comment Requested on Suggested Domestic Risk-Based Capital Modifications

The four federal banking agencies—the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision—published on October 20, 2005, an interagency advance notice of proposed rulemaking (ANPR) regarding potential revisions to the existing risk-based capital framework. These changes would apply to banks, bank holding companies, and savings associations.

The ANPR document discusses various modifications to the U.S. risk-based capital standards including:

- increasing the number of risk-weight categories to which credit exposures may be assigned;
- expanding the use of external credit ratings as an indicator of credit risk for externally rated exposures;
- expanding the range of collateral and guarantors that may qualify an exposure for lower risk weights;

• using loan-to-value ratios, credit assessments, and other broad measures of credit risk for assigning risk weights to residential mortgages;

• modifying the credit conversion factor for various commitments, including those with an original maturity of less than one year;

• requiring that certain loans ninety days or more past due or in a non-accrual status be assigned to a higher risk-weight category;

• modifying the risk-based capital requirements for certain commercial real estate exposures;

• increasing the risk sensitivity of capital requirements for other types of retail, multifamily, small business, and commercial exposures; and

• assessing a risk-based capital charge to reflect the risks in securitizations with early amortization provisions that are backed by revolving retail exposures.

Comments must be received on or before January 18, 2006.

JULY 2005 UPDATE TO THE *BANK HOLDING COMPANY SUPERVISION MANUAL*

The July 2005 update to *the Bank Holding Company Supervision Manual* has been published (supplement no. 28). The *Manual* comprises the Federal Reserve System's regulatory, supervisory, and inspection guidance for bank holding companies (BHCs). The new supplement includes guidance on the following subjects:

1. *Interagency Credit Risk Management Guidance for Home-Equity Lending*. The section on "Supervision of Subsidiaries—Loan Administration and Lending Standards" has been revised to include this May 16, 2005, guidance that was issued by the federal supervisory agencies to promote greater focus on sound risk-management practices at banking organizations that have home-equity lending programs. The guidance highlights the sound risk-management practices that a banking organization should follow to align the growth and risk within its home-equity portfolio. See SR letter 05-11 and its attachment. The inspection objectives and procedures were revised to incorporate the interagency guidance.

2. *Continued Limited Inclusion of Trust Preferred Securities in the Tier 1 Capital of Bank Holding Companies*. The section "Consolidated Capital—Examiner's Guidelines for Assessing the Capital Adequacy of BHCs" and the section "Consolidated Capital—Leverage Measure" were revised to incorporate the February 28, 2005 (published March 10, 2005), revision of the definition of tier 1 capital under the Board's risk-based and leverage capital rules for BHCs. The revised rules allow the continued inclusion of outstanding and prospective issuances of trust preferred securities in BHCs' tier 1 capital and impose new quantitative limits and qualitative standards on the components of tier 1 capital. The Board adopted revised quantitative limits on the aggregate amount of cumulative perpetual preferred and trust preferred securities, and minority interests in the equity accounts of most consolidated subsidiaries (collectively, restricted core capital elements) included in BHCs' tier 1 capital. The revised rule limits restricted core capital elements as of March 31, 2009, to 25 percent of all core capital elements, net of goodwill less any associated deferred tax liability. Internationally active BHCs, defined as those with consolidated assets greater than $250 billion or on-balance-sheet foreign exposure greater than $10 billion, will be subject to a 15 percent limit. They may, however, include qualifying mandatory convertible preferred securities up to the generally applicable 25 percent limit. Amounts of restricted core capital elements in excess of these limits generally may be included in tier 2 capital, subject to the limit that the aggregate amount of subordinated debt and restricted core capital elements (other than cumulative perpetual preferred securities) included in tier 2 capital may not exceed 50 percent of tier 1 capital. A transition period, ending March 31, 2009, is provided for the application of the quantitative limits.

The revised rule addresses supervisory concerns, competitive equity considerations, and the changes in the treatment of trust preferred securities under generally accepted accounting principles. In addition, it strengthens the definition of regulatory capital by incorporating longstanding Board policies regarding the acceptable terms of capital instruments included in BHCs' tier 1 or tier 2 capital. These strengthened standards include a requirement that junior subordinated notes underlying trust preferred securities generally comply with the Board's subordinated debt policy statement. See 12 CFR 250.166. Updated inspection objectives and procedures are also included. The Board's Regulation Y, appendix A (12 CFR 225, appendix A) includes the risk-based capital rule and the rule's appendix D (12 CFR 225, appendix D) sets forth the tier 1 leverage measure rule.

3. *The Bank Holding Company RFI/C (D) Rating System*. The "BHC Rating System" section has been updated to replace the BOPEC bank holding company rating system with the RFI/C (D) rating system that was approved by the Board on December 1, 2004 (effective January 1, 2005), and described in SR letter 04-18. Under this new system, each BHC is assigned a "C" composite rating, which is based on an evaluation and rating of the BHC's managerial and financial condition and an assessment of future potential risk to its subsidiary depository institution(s). The other main components of the rating system are: Risk management (R); Financial condition (F); and potential Impact (I) of the parent company and nondepository subsidiaries (collectively, nondepository entities) on the subsidiary depository institution(s). The Depository institution(s) (D), will generally mirror the primary regulator's assessment of the subsidiary depository institution(s). Several component ratings have subcomponent ratings. The composite, component, and subcomponent ratings are assigned to BHCs on the basis of a numeric scale. A "1" is

the highest rating; a "5" is the lowest. All of the BHC's numeric ratings, including the composite, component, and subcomponent ratings, should be presented in the inspection report in accordance with Federal Reserve supervisory practices. Many of the *manual's* sections that involve supervisory risk-management-assessments during a BHC inspection have been revised to incorporate, or reference, the RFI/C (D) rating system.

4. *Interagency Advisory on the Confidentiality of the Supervisory Rating and Other Non-Public Supervisory Information*. A new section incorporates the February 28, 2005, interagency advisory that reminds banking organizations of the statutory prohibitions on the disclosure of supervisory ratings and other confidential supervisory ratings to third parties. See SR letter 05-4.

5. *Board Orders and Board Staff Interpretations Involving Nonbanking Activities*. A new section, "Credit Card Bank Exemption from the Definition of Bank," discusses the February 18, 2005, Board staff interpretation involving the credit card bank exemption under section 2(c)(2)(F) of the BHC Act. This statutory provision and the interpretation set forth the criteria that an institution must meet to qualify for the so-called credit card bank exemption.

The section for "Section 4(c)(4) of the BHC Act—Interests in Nonbanking Organizations" has been revised to include a qualifying foreign banking organization's (FBO's) November 24, 2004, request for a Board staff determination, which is based on section 4(c)(4) of the BHC Act and on the availability of a fiduciary exemption that is found in the Board's Regulation K, section 211.23(f)(4) (12 CFR 211.23(f)(4)) and in Regulation Y, section 225.22(d)(3) (12 CFR 225.22(d)(3)). Two of the FBO's asset-management subsidiaries proposed to serve as trustee for foreign-based investment trusts that would invest in U.S. real estate. As part of this asset-management activity, the two subsidiaries would take title to U.S. real estate on behalf of the investment trusts and for the benefit of the investors in the trusts.

The section "Permissible Activities for FHCs (section 4(k) of the BHC Act)" and the section "Limited Physical-Commodity Trading Activities (section 4(k) of the BHC Act)" were revised for additional Board orders (see 2004 *Federal Reserve Bulletin*, pp. 215 and 511) that authorized engaging in limited amounts and types of commodity trading activities that complement the financial activity of acting regularly as principal in BHC-permissible commodity derivatives based on a particular commodity. A financial holding company must submit, through the filing of a notice under section 4 of the BHC Act, a written request to the Federal Reserve Board to engage in a complementary activity.

A more detailed summary of changes is included with the update package. Copies of the new supplement were shipped directly by the publisher to the Reserve Banks for their distribution to examiners and other System staff. The public may obtain the *Manual* and the updates (including pricing information) from Publications Fulfillment, Mail Stop 127, Board of Governors of the Federal Reserve System, 20th and C Streets, N.W., Washington, DC 20551; telephone (202) 452-3244; or send a facsimile to (202) 728-5886. The *Manual* is also available on the Board's public web site at www.federalreserve.gov/boarddocs/supmanual/.

Changes in Publishing Format of the *Federal Reserve Bulletin*

The Federal Reserve Board announced on September 22, 2005, that beginning in 2006, the content of the *Federal Reserve Bulletin* will be published on the Board's public web site (www.federalreserve.gov) on a continuing basis, as it becomes available. The quarterly paper version of the *Bulletin* will no longer be published. However, the Board will print an annual compendium.

The online version of the *Bulletin* responds to the increased use of the Internet to access information and will make the planning and production of the *Bulletin* more efficient. Publishing articles and reports on the web as they become available will allow for the more timely introduction of research and information.

The online version of the *Bulletin* will continue to include topical research articles, Legal Developments, Report on the Condition of the U.S. Banking Industry, and links to other features.

Online access to the *Bulletin* will be free. A free e-mail notification service will be available to alert subscribers to new articles as they are released.

Articles published in the *Bulletin* can currently be found online at www.federalreserve.gov/pubs/bulletin.

Minutes of the Federal Open Market Committee

The Federal Reserve Board and the Federal Open Market Committee released on August 30, 2005, the minutes of the Committee meeting held on August 9, 2005.

On October 11, 2005, the Federal Reserve Board and the Federal Open Market Committee released the minutes of the Committee meeting held on September 20, 2005.

The minutes for each regularly scheduled meeting of the Committee are made available three weeks after the day of the policy decision and subsequently are published in the Board's *Annual Report*. The summary descriptions of economic and financial conditions contained in the minutes are based solely on the information available to the Committee at the time of the meetings.

FOMC minutes can be viewed on the Board's web site at www.federalreserve.gov/fomc.

Minutes of Board Discount Rate Meetings

The Federal Reserve Board released on September 6, 2005, the minutes of its discount rate meetings from July 18, 2005, through August 9, 2005.

On October 18, 2005, the Board released the minutes of its discount rate meetings from August 22, 2005, through September 20, 2005.

Meeting of the Consumer Advisory Council

The Federal Reserve Board announced on September 29, 2005, that the Consumer Advisory Council would hold its next meeting on Thursday, October 27, 2005. The meeting, which was open to public observation, took place at the Federal Reserve Board's offices in Washington, D.C., in Dining Room E, Terrace level in the Board's Martin Building.

The Council's function is to advise the Board on the exercise of its responsibilities under various consumer financial services laws and on other matters on which the Board seeks its advice. Time permitting, the Council planned to discuss the following topics:

- Home Mortgage Disclosure Act
- Economic Growth and Regulatory Paperwork Reduction Act
- Nontraditional Mortgage Loans
- Hurricane Katrina

Enforcement Actions

Final Decisions and Orders of Prohibition

The Federal Reserve Board announced on August 17, 2005, the issuance of a final decision and order of prohibition against Walter C. Cleveland, a former employee of First National Bank, Lubbock, Texas. The order, the result of an action brought by the Office of the Comptroller of the Currency, prohibits Mr. Cleveland from participating in the conduct of the affairs of any financial institution or holding company.

The Federal Reserve Board announced on September 15, 2005, the issuance of an order of prohibition against Hanspeter Walder, a former employee and officer of the New York Branch of UBS AG, Zurich, Switzerland. The order was issued relating to Mr. Walder's violations of law, unsafe and unsound banking practices, and breaches of fiduciary duties to UBS and its customers in connection with his embezzlement of funds for personal use.

Mr. Walder, a private banker, embezzled more than $70 million from at least twenty-two UBS private client accounts under his responsibility. Mr. Walder pleaded guilty to sixteen counts of embezzlement and misapplication by a bank officer or employee and is currently serving a ninety-seven month prison sentence. Mr. Walder was ordered to make restitution of $70 million and to pay a fine of $1 million. As required by the court at sentencing, Mr. Walder has consented to the issuance of the order of prohibition.

The Federal Reserve Board announced on September 20, 2005, the issuance of a final decision and order of prohibition against Brian Bonetti, a former employee of National City Bank, Cleveland, Ohio. The order, the result of an action brought by the Office of the Comptroller of the Currency, prohibits Mr. Bonetti from participating in the conduct of the affairs of any financial institution or holding company.

The Federal Reserve Board announced on September 28, 2005, the issuance of an order of prohibition against Jessica Faris, a former employee and institution-affiliated party of SunTrust Bank, Atlanta, Georgia.

Ms. Faris, without admitting to any allegations, consented to the issuance of the order based on her alleged violations of law and breaches of fiduciary duty to SunTrust Bank and its customers in connection with embezzlement of funds and falsification of the bank's books and records at a cash vault processing center.

The Federal Reserve Board announced on October 24, 2005, the issuance of a consent notice of suspension and prohibition against William R. Kahler, an officer of Primebank, LeMars, Iowa, a state member bank.

A notice of suspension and prohibition was issued under a provision of the Federal Deposit Insurance Act that authorizes the Federal Reserve Board and other bank regulators to limit the activities of bank officials who have been charged with certain criminal offenses pending the resolution of the charges.

Written Agreements

The Federal Reserve Board and the New York State Banking Department announced on October 14, 2005, the execution of a written agreement by and among the Deutsche Bank Trust Company Americas, New York, New York, the Federal Reserve Bank of New York, and the New York State Banking Department.

The written agreement addresses Bank Secrecy Act and anti-money-laundering compliance at Deutsche Bank Trust Company Americas, including policies and practices relating to the provision of correspondent banking services.

The Federal Reserve Board announced on October 14, 2005, the execution of a written agreement by and between Surety Capital Corporation, Fort Worth, Texas, and the Federal Reserve Bank of Dallas.

Termination of Enforcement Actions

The Federal Reserve Board announced on September 26, 2005, the termination of the enforcement actions listed below.

- First State Bank of Warner, Warner, South Dakota
  Written agreement dated December 11, 2001
  Terminated September 20, 2005

- Midwest Banc Holdings, Inc., Melrose Park, Illinois, and Midwest Bank and Trust Company, Elmwood Park, Illinois
  Written agreement dated March 15, 2004
  Terminated September 16, 2005

On October 5, 2005, the Federal Reserve Board announced the termination of the following enforcement action.

- First Midwest Bank, Itasca, Illinois
  Written agreement dated July 9, 2004
  Terminated September 30, 2005

On October 25, 2005, the Federal Reserve Board announced the termination of the following enforcement action.

- Ridgedale State Bank, Minnetonka, Minnesota
  Written agreement dated July 29, 2004
  Terminated October 25, 2005

On October 26, 2005, the Federal Reserve Board announced the termination of the following enforcement action.

- AmericasBank Corporation and AmericasBank, Towson, Maryland
  Written agreement dated August 3, 2001
  Terminated October 12, 2005

The Federal Reserve's enforcement action web site, www.federalreserve.gov/boarddocs/enforcement, reports the terminations as they occur.

Changes in Board Staff

The Board of Governors approved on August 29, 2005, the promotion of William C. Schneider, Jr., to deputy associate director in the Division of Banking Supervision and Regulation.

Mr. Schneider was promoted to reflect the range of his continuing responsibilities for the National Information Center, which include overseeing key supervisory national applications such as BOND, NED, RSSD, and CDTR; representing the division on the interagency Call Report Modernization effort and the Information Sharing Task Force of the FFIEC; and being responsible for the division's information technology support.

Mr. Schneider joined the Board in 1976 in the Division of Information Technology. He was appointed assistant director in 1982. Mr. Schneider transferred to the Federal Reserve Bank of Cleveland as vice president in 1986. In 1990 he returned to the Board and was appointed project director for the National Information Center. He joined the Division of Banking Supervision and Regulation in 1994. Mr. Schneider holds a BS degree in business administration from Geneva College and an MBA with a concentration in information technology from George Mason University.

Joseph H. Hayes, Jr., assistant director in the Division of Reserve Bank Operations and Payment Systems, passed away on Sunday, September 4, 2005. Mr. Hayes was responsible for the Board's oversight of the Reserve Bank Human Resources programs. He joined the Board in 1985.

The Board of Governors approved on September 26, 2005, the appointment of Leonard Chanin as associate director and Sheila F. Maith as assistant director in the Division of Consumer and Community Affairs.

Leonard Chanin will have oversight responsibility for the Regulations branch, which handles the legal analysis and regulation drafting functions. He will also represent the Board in public and private forums dealing with regulatory issues related to financial services. Mr. Chanin worked as an attorney in the Board's Division of Consumer and Community Affairs from 1985 to 1999. He left the Board to join the law firm of Morrison and Foerster, where he has worked ever since. Mr. Chanin holds a BA degree from the American University and a JD from the Washington University Law School.

Sheila F. Maith will have oversight responsibility for Board and System programs in both the community affairs function and the Consumer Advisory Council. She will represent the Board at public- and private-sector meetings and in discussions dealing with policies and programs related to community and economic development and the delivery of financial services to underserved markets. Ms. Maith is employed by the Fannie Mae Foundation, where she manages the policy and leadership development program. Her responsibilities include the development and implementation of the foundation's strategy to advance affordable housing issues on the public-policy agenda, focusing on state and local government. Before her position with Fannie Mae, Ms. Maith was senior counsel to Senator Edward M. Kennedy, acting as an adviser on economic issues. She holds an MA degree from the Kennedy School of Government at Harvard University and a JD from the Harvard Law School.

The Board of Governors approved on November 1, 2005, the appointment of Brian J. Gross as special assistant to the Board in the Congressional Liaison program in the Office of Board Members.

Mr. Gross joined the Office of Board Members as congressional liaison assistant in 2003. Before joining the Board's staff, he served as chief counsel to the executive director of the Securities and Exchange Commission, as director of communications for the SEC, as the deputy staff director and chief ethics officer for the Senate Banking Committee, and as chief counsel and legislative assistant to Senator Phil Gramm. Mr. Gross holds a BA in economics and history from Texas A&M University and a JD from the Georgetown University Law Center.

The Board of Governors approved on November 2, 2005, the appointment of Jill Rosen to assistant director in the Division of Information Technology. Ms. Rosen will have oversight responsibilities for the National Information Center (NIC) Systems branch. The newly created branch includes the NIC Architecture Redesign Initiative (NARI). The NARI project will provide economists and financial analysts throughout the Federal Reserve System easier and more cost-effective access to structure, financial, and supervisory data on financial institutions.

Ms. Rosen joined the Board in 1997 and was promoted to manager in the Division of Information Technology in 2000. She has managed software development for many of the Board's key information systems. Before joining the Board, Ms. Rosen worked for Computer Business Methods as a senior management analyst and database administrator. She holds a BS in electrical engineering from George Washington University, and she will receive an MS in project management from George Washington University in December 2005. □