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## Announcements

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*STATEMENT BY CHAIRMAN ALAN GREENSPAN  
ON WIM DUISENBERG, FORMER FIRST  
PRESIDENT, EUROPEAN CENTRAL BANK*

“Wim Duisenberg earned respect and admiration worldwide for his successful launching of the euro and his effective leadership as the first president of the European Central Bank. On a personal level, I valued his friendship and I will miss him.”

*RESIGNATION OF GOVERNOR EDWARD M.  
GRAMLICH*

Governor Edward M. Gramlich submitted his resignation on May 18, 2005, as a member of the Board of Governors of the Federal Reserve System, effective August 31, 2005. Governor Gramlich, who has been a member of the Board since November 5, 1997, submitted his letter of resignation to President Bush. In view of his impending departure and in keeping with Federal Open Market Committee practice, he did not attend the August 9, 2005, meeting of the FOMC.

“Ned has contributed powerfully to the work of the Board and of the FOMC for nearly eight years,” said Federal Reserve Board Chairman Alan Greenspan. “Our deliberations have been enriched by his keen insights, his good humor, and his lively mind.”

Gramlich resigned to pursue several teaching and research interests. He will become the Richard A. Musgrave collegiate professor in the Gerald R. Ford School of Public Policy at the University of Michigan, teaching in that program and in the new Michigan in Washington Program. He will also hold a part-time appointment as senior fellow at the Urban Institute.

Gramlich, 65, was first appointed to the Federal Reserve Board by President Clinton to a term that expires on January 31, 2008. For most of this time he has served as chair of the Board’s Committee on Consumer and Community Affairs. During his tenure the committee proposed, and the Board adopted, important changes in the Home Owner Equity Protection Act and the Home Mortgage Disclosure Act. The

committee has also proposed a revision to the Community Reinvestment Act.

He has also been the Board’s delegate to, and chair of, the Airline Transportation Stabilization Board, a board set up to administer the \$10 billion loan guarantee program enacted in response to the September 11, 2001, disaster.

Governor Gramlich has chaired the board of the Neighborhood Reinvestment Corporation, a partnership that has generated more than \$8.5 billion in reinvestment and helped more than 500,000 families of modest means purchase or improve their homes or secure rental or mutual housing.

Before coming to the Board, Governor Gramlich was dean of Michigan’s School of Public Policy, now renamed as the Gerald R. Ford School of Public Policy. He also chaired the 1994–96 Quadrennial Advisory Council on Social Security and was staff director for the 1992 Economic Study Committee on Major League Baseball.

*FEDERAL OPEN MARKET COMMITTEE  
STATEMENTS*

The Federal Open Market Committee decided on May 3, 2005, to raise its target for the federal funds rate 25 basis points, to 3 percent.

The Committee believes that, even after this action, the stance of monetary policy remains accommodative and, coupled with robust underlying growth in productivity, is providing ongoing support to economic activity. Recent data suggest that the solid pace of spending growth has slowed somewhat, partly in response to the earlier increases in energy prices. Labor market conditions, however, apparently continue to improve gradually. Pressures on inflation have picked up in recent months and pricing power is more evident. Longer-term inflation expectations remain well 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; Edward M. Gramlich; Donald L. Kohn; Michael H. Moskow; Mark W. Olson; Anthony M. Santomero; and Gary H. Stern.

In a related action, the Board of Governors unanimously approved a 25-basis-point increase in the discount rate, to 4 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.

The Federal Open Market Committee decided on June 30, 2005, to raise its target for the federal funds rate 25 basis points, to 3¼ percent.

The Committee believes that, even after this action, the stance of monetary policy remains accommodative and, coupled with robust underlying growth in productivity, is providing ongoing support to economic activity. Although energy prices have risen further, the expansion remains firm and labor market conditions continue to improve gradually. Pressures on inflation have stayed elevated, but longer-term inflation expectations remain well 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.

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Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco.

The Federal Open Market Committee decided on August 9, 2005, to raise its target for the federal funds rate 25 basis points, to 3½ percent.

The Committee believes that, even after this action, the stance of monetary policy remains accommodative and, coupled with robust underlying growth in productivity, is providing ongoing support to economic activity. Aggregate spending, despite high energy prices, appears to have strengthened since late winter, and labor market conditions continue to improve gradually. Core inflation has been relatively low in recent months and longer-term inflation expectations remain well contained, but pressures on inflation have stayed elevated.

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.

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#### *FEDERAL OPEN MARKET COMMITTEE SCHEDULE FOR 2006*

The Federal Open Market Committee announced on June 29, 2005, its tentative meeting schedule for 2006: January 31–February 1 (Tuesday–Wednesday), March 28, May 10, June 28–29 (Wednesday–Thursday), August 8, September 20, October 24, December 12, 2005, and January 30–31, 2007 (Tuesday–Wednesday).

*AMENDMENTS TO REGULATION CC,  
APPENDIX A*

The Federal Reserve Board announced on April 19, 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 Tenth and Twelfth 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 number guide that helps depository institutions determine the maximum permissible hold periods for most deposited checks. As of June 18, 2005, the Salt Lake City Branch office of the Federal Reserve Bank of San Francisco will no longer process checks, and banks that are served by that office have been reassigned to the Denver Branch office of the Federal Reserve Bank of Kansas City. To ensure that the information in appendix A accurately describes the structure of check-processing operations within the Federal Reserve System, the final rule deletes the reference in appendix A to the San Francisco Reserve Bank's Salt Lake City Branch office and reassigns the routing numbers listed thereunder to the Kansas City Reserve Bank's Denver Branch office. To coincide with the effective date of the underlying check-processing changes, the amendments will become effective June 18, 2005. As a result of these changes, some checks deposited in the affected regions that were nonlocal checks became local checks subject to shorter permissible hold periods.

The Federal Reserve Board announced on August 9, 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 Twelfth District. 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 number guide that helps depository institutions determine the maximum permissible hold periods for most deposited checks. As of October 22, 2005, the Portland Branch office of the Federal Reserve Bank of San Francisco will no longer process checks, and banks that are served by that office have been reassigned to the Seattle Branch

office of the Federal Reserve Bank of San Francisco. To ensure that the information in appendix A accurately describes the structure of check-processing operations within the Federal Reserve System, the final rule deletes the reference in appendix A to the San Francisco Reserve Bank's Portland Branch office and reassigns the routing numbers listed thereunder to the Reserve Bank's Seattle Branch office. To coincide with the effective date of the underlying check-processing changes, the amendments will become effective October 22, 2005. As a result of these changes, some checks deposited in the affected regions that were nonlocal checks became local checks subject to shorter permissible hold periods.

*FINAL AMENDMENTS TO REGULATION DD*

The Federal Reserve Board published on May 19, 2005, final amendments to Regulation DD (Truth in Savings), which implements the Truth in Savings Act, and the regulation's official staff commentary to improve the uniformity and adequacy of information provided to consumers when they overdraw their deposit accounts. The final amendments, in part, address a specific service provided by many depository institutions to pay checks and allow other transactions when there are insufficient funds in an account. This service is often referred to as *bounced-check protection* or *courtesy overdraft protection*.

Depository institutions sometimes provide overdraft services to deposit account customers as an alternative to a traditional overdraft line of credit. To address concerns about the marketing of this service, the final rule expands the regulation's prohibition against misleading advertisements to cover institutions' communications with current customers about their existing accounts. The staff commentary provides examples of advertisements that would ordinarily be misleading.

Other revisions to Regulation DD require additional disclosures about fees and other terms for overdraft services, including in advertisements. To assist consumers in understanding the financial effect of overdrawing their accounts, the final rule requires institutions that promote the payment of overdrafts in an advertisement to disclose on periodic statements the total dollar amount imposed for overdraft fees and the total dollar amount imposed for returned-item fees, both for the statement period and for the calendar year to date.

The final rule became effective on July 1, 2006.

*ANNUAL ADJUSTMENT OF FEE-BASED TRIGGER AMOUNT FOR ADDITIONAL DISCLOSURE REQUIREMENTS*

The Federal Reserve Board published on August 4, 2005, its annual adjustment of the dollar amount that triggers additional disclosure requirements under the Truth in Lending Act for home mortgage loans that bear rates or fees above a certain amount.

The dollar amount of the fee-based trigger has been adjusted to \$528 for 2006 based on the annual percentage change reflected in the consumer price index that was in effect on June 1, 2005. The adjustment is effective January 1, 2006.

The Home Ownership and Equity Protection Act of 1994 restricts credit terms such as “balloon payments” and requires additional disclosures when total points and fees payable by the consumer exceed the fee-based trigger (initially set at \$400 and adjusted annually) or 8 percent of the total loan amount, whichever is larger.

*REQUEST FOR COMMENT ON IMPUTING RETURN ON CAPITAL*

The Federal Reserve Board requested on May 18, 2005, public comment on alternative approaches to imputing a private-sector-like return on capital that would be considered in setting fees for certain payment services provided to depository institutions. Specifically, the Board requests comment on the targeted return on equity (ROE) capital measure contained in the private-sector adjustment factor (PSAF).

The Monetary Control Act of 1980 requires the Federal Reserve to set fees for the services it provides to depository institutions at a level sufficient to recover, over the long run, the actual costs of providing these services, as well as the imputed costs and profits. The PSAF is an allowance for imputed costs, including financing costs, return on equity capital, taxes, and certain other expenses that are not explicitly incurred by the Reserve Banks but would be incurred by a private business firm providing 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.

The Board is requesting comment on alternative approaches to the current method used to compute a target ROE, including the analytical models used and

the model assumptions and inputs. The Board is also requesting comment on implementing a longer-term planning horizon for targeting the PSAF ROE, and the effect that future regulatory and industry changes could have on the PSAF method.

Comments were requested by July 22, 2005.

*FEDERAL RESERVE BANKS ANNOUNCE CHANGES TO INCREASE EFFICIENCY IN CHECK SERVICES*

As part of their ongoing effort to respond to the significant shift away from the use of paper checks and toward the much greater use of electronic payments, the Federal Reserve Banks will discontinue check processing at the Federal Reserve Bank of New York’s East Rutherford Operations Center. That volume will be processed at the Federal Reserve Bank of Philadelphia. No firm date for the transition has yet been determined, but it is expected to take place in the second half of 2006. The change is aimed at increasing the efficiency of the Reserve Banks’ check-processing operations, while continuing to provide high-quality services to depository institutions throughout the country.

“The step announced [on May 25, 2005,] will help the Reserve Banks reduce our check service operating costs in line with the continuing shift in consumer and business preferences for electronic payments,” said Gary Stern, chairman of the Reserve Banks’ Financial Services Policy Committee and president of the Federal Reserve Bank of Minneapolis. “Today’s announcement marks the third annual review of our check infrastructure, which has resulted in a reduction in the number of locations processing checks. We will continue to evaluate our check-processing infrastructure annually to ensure that we are well positioned to meet the needs of the nation’s payment system.”

Since 2003 the Reserve Banks have reduced the locations where they process checks from forty-five to twenty-nine as of May 25, 2005. An additional six locations, previously announced, will no longer process checks by early 2006, further reducing the number to twenty-three. After this step is completed, the Reserve Banks will process checks from twenty-two locations nationwide.

“The changes that we have implemented over the past three years have been good for the nation’s payments system but difficult for our organization as we have been required to reduce our staff,” said Stern. To assist affected staff, the Reserve Banks will

offer a variety of programs, including separation packages, extended medical coverage, and career transition assistance.

As a result of the action announced on May 25, 2005, the Reserve Banks will reduce their overall check staff by approximately eighty positions, representing about 2 percent of the Reserve Banks' current check employees. At the East Rutherford location, about 140 positions will be affected. Some staff reductions may occur through attrition and there may be some opportunities for reassignment. The Reserve Banks estimate that they will add approximately sixty positions in Philadelphia to help process the additional volume.

In 2004 Reserve Banks' check volume declined at about a 12 percent rate. During 2005 check volumes have continued to decline; further decline is anticipated in the coming years. A 2004 study revealed that about thirty-seven billion checks were paid in the United States in 2003, down from forty-two billion in 2001 and fifty billion in 1995. Electronic payments, including those made by credit cards, debit cards, and through the automated clearinghouse system increased from about thirty billion transactions in 2001 to more than forty-four billion transactions in 2003.

The Federal Reserve Banks' long-term check-processing strategy will allow them to better meet the expectations of the 1980 Monetary Control Act. That act requires the Federal Reserve to set prices to recover, over the long run, its total operating costs of providing payment services to financial institutions, as well as the imputed costs it would have incurred and the profits it would have expected to earn had the services been provided by a private business firm.

The Federal Reserve System 2005 Check Restructuring Fact Sheet can be viewed online at [www.federalreserve.gov/boarddocs/press/other/2005/20050525](http://www.federalreserve.gov/boarddocs/press/other/2005/20050525).

#### *FEDERAL RESERVE BANKS ANNOUNCE CHANGES TO CASH INFRASTRUCTURE*

The Federal Reserve Banks announced on June 28, 2005, changes to cash services that are intended to improve operating effectiveness by providing cash services at some locations using different distribution methods.

The Reserve Banks plan in the next six to twelve months to switch from branch-based cash services to cash depots in Birmingham, Alabama; Oklahoma City, Oklahoma; and Portland, Oregon. These changes are part of a broader effort to update the

Federal Reserve's infrastructure for processing currency.

"We've looked at, and will continue to look at, major metropolitan markets where we do not have a Federal Reserve presence and at smaller markets where we do have a presence but where different service models might be more effective," said Gary Stern, chairman of the Reserve Banks' Financial Services Policy Committee and president of the Federal Reserve Bank of Minneapolis.

"We want to ensure that we're making the best use of resources while satisfying the need for cash services. We want to emphasize that the Federal Reserve will continue to make cash services available to depository institutions throughout the country, although in some cases we will do so with a different business model," he said.

In 2004 and early 2005 the Federal Reserve discontinued cash services through Branches in Little Rock, Arkansas; Louisville, Kentucky; and Buffalo, New York, and established cash depots in those cities.

A cash depot is an alternative market presence for Federal Reserve cash services. With a cash depot, the Federal Reserve contracts with a third party—usually an armored carrier—that acts as a secure collection point for Federal Reserve currency deposits from the region's depository institutions. The depot also distributes currency orders that depository institutions have placed with the Reserve Bank. The work of counting deposits and preparing orders is done by a Federal Reserve office in another city. The Federal Reserve pays for the transportation between the Reserve Bank office and the depot operator. The operator follows strict procedures developed by the Federal Reserve.

The Birmingham cash depot will be serviced by the Federal Reserve Bank of Atlanta's head office, the Oklahoma City cash depot will be serviced by the Federal Reserve Bank of Dallas' head office, and the Portland cash depot will be serviced by the Federal Reserve Bank of San Francisco's Seattle office. Approximately fifty cash employees work at the Birmingham, Oklahoma City, and Portland Branches combined, but the number that will be affected by these changes is undetermined at this time. The Reserve Banks will offer a variety of programs to staff that are affected by these decisions, including separation packages, extended medical coverage, and career transition assistance.

The Federal Reserve will continue its evaluation of cash services and plans to announce further changes as recommendations are approved, including the possibility of serving new markets.

Cash remains a vital component of the nation's payment system. While studies show that the use of electronic payments is growing, cash use also continues to grow, and the dollar amount of U.S. currency in circulation worldwide has increased almost 88 percent since 1994, to \$720 billion at the end of 2004. During the same period, the amount of deposits and orders processed through Reserve Banks has increased nearly 70 percent, to seventy-five billion bank notes, in 2004.

"These changes and others that may come later in the review process will help the Federal Reserve provide cash services more effectively, both when transitioning out of our own cash processing facilities and when establishing a first-time presence in a market," Stern said.

#### *GUIDANCE ON BANKING SERVICES FOR MONEY SERVICES BUSINESSES*

The Financial Crimes Enforcement Network (FinCEN), along with 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 (collectively, the "Federal Banking Agencies"), issued on April 26, 2005, interpretive guidance designed to clarify the requirements for, and assist banking organizations in, appropriately assessing and minimizing risks posed by providing banking services to money services businesses.

FinCEN also has issued a concurrent advisory to money services businesses to emphasize their Bank Secrecy Act regulatory obligations and to notify them of the types of information that they will be expected to provide to a banking organization in the course of opening or maintaining account relationships.

Although recognizing the importance and diversity of services provided by money services businesses, the guidance to banking organizations specifies that FinCEN and the Federal Banking Agencies expect banking organizations that open and maintain accounts for money services businesses to apply the requirements of the Bank Secrecy Act, as they do with all account holders, on a risk-assessed basis. Registration with FinCEN, if required, and compliance with any state licensing requirements represent the most basic of compliance obligations for money services businesses.

Based on existing Bank Secrecy Act requirements applicable to banking organizations, the minimum compliance expectations associated with opening and

maintaining accounts for money services businesses are to

- apply the banking organization's Customer Identification Program;
- confirm FinCEN registration, if required;
- confirm compliance with state or local licensing requirements, if applicable;
- confirm agent status, if applicable; and
- conduct basic risk assessment to determine the level of risk associated with the account.

Through the interpretive guidance, FinCEN and the Federal Banking Agencies confirm that banking organizations have the flexibility to provide banking services to a wide range of money services businesses while remaining in compliance with the Bank Secrecy Act. Although banking organizations are expected to manage risk associated with all accounts, including money services business accounts, banking organizations are not required to ensure their customers' compliance with all applicable federal and state laws and regulations.

The guidance contains examples that may be indicative of lower and higher risk within money services business accounts to assist banking organizations in identifying the risks posed by a money services business customer and in reporting known or suspected violations of law or suspicious transactions relevant to possible violations of law or regulation.

In addition, the guidance addresses the recurring question of the obligation of a banking organization to file a suspicious activity report on a money services business that has failed to register with FinCEN, if required to do so, or failed to obtain a license under applicable state law, if required. The guidance states that a banking organization should file a suspicious activity report if it becomes aware that a customer is operating in violation of the registration or state licensing requirements. This approach is consistent with long-standing practices of FinCEN and the Federal Banking Agencies under which banking organizations file suspicious activity reports on known or suspected violations of law or regulation.

The concurrently issued FinCEN advisory to money services businesses emphasizes the importance of compliance with Bank Secrecy Act regulatory requirements by money services businesses. The advisory is designed to assist money services businesses by outlining the types of information that they should have and be prepared to provide to a banking organization in the course of opening or maintaining account relationships. The advisory also makes clear that money services businesses that fail to comply

with the most basic requirements of the Bank Secrecy Act, such as registration with FinCEN, if required, will be subject to regulatory and law enforcement scrutiny, and that continued noncompliance will likely result in the loss of banking services.

More information is available on the Board's public web site at [www.federalreserve.gov/boarddocs/press/bcreg/2005/20050426/attachment.pdf](http://www.federalreserve.gov/boarddocs/press/bcreg/2005/20050426/attachment.pdf) and at [www.federalreserve.gov/boarddocs/press/bcreg/2005/20050426/attachment2.pdf](http://www.federalreserve.gov/boarddocs/press/bcreg/2005/20050426/attachment2.pdf).

#### *BANKING AGENCIES TO PERFORM ADDITIONAL ANALYSIS BEFORE ISSUING NOTICE OF PROPOSED RULEMAKING*

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) agreed on April 29, 2005, that additional analysis is needed before publishing a notice of proposed rulemaking (NPR) with respect to the U.S. implementation of the "International Convergence of Capital Measurement and Capital Standards: A Revised Framework," generally known as the Basel II Framework.

The agencies had intended to publish the NPR at midyear 2005, but agreed to a delay to better assess the results of a recently completed quantitative impact study (QIS4). The agencies agreed to issue the NPR at the earliest possible date after considering issues raised by the QIS4 results.

In a joint release published on June 26, 2004, the agencies described U.S. efforts to implement the Basel II Framework through revisions to our existing capital adequacy regulations. Among the key features in that implementation plan was an assessment of the implications of the framework on U.S. regulatory capital requirements through QIS4 and the solicitation of public comments on necessary revisions to existing capital adequacy regulations through an NPR. The QIS4 process was designed to provide the agencies with a better understanding of the ways the implementation of the Basel II Framework might affect minimum required risk-based capital within the U.S. banking industry overall, at consolidated U.S. institutions, and for specific portfolios. The agencies believe that the QIS4 results are critical inputs in the assessment of (1) the implications of Basel II for the safety and soundness of the banking system and (2) the competitive effects of adopting the Basel II Framework. Both are fundamental to the formulation of the NPR.

The agencies have received QIS4 submissions from participating institutions and have completed a preliminary analysis of those materials. The agencies have determined that additional analysis beyond that previously contemplated is necessary before publication of an NPR. The QIS4 submissions evidence material reductions in the aggregate minimum required capital for the QIS4 participant population and significant dispersion of results across institutions and portfolio types. Additional work is necessary to determine whether these results reflect differences in risk, reveal limitations of QIS4, identify variations in the stages of bank implementation efforts (particularly related to data availability), and, or suggest the need for adjustments to the Basel II Framework.

The agencies remain committed to moving forward with the implementation of Basel II while retaining Prompt Corrective Action and leverage requirements. The delay in issuing the NPR is intended to ensure that any proposed changes to the risk-based capital framework are consistent with safety and soundness, good risk-management practices, and the continued competitive strength of the U.S. banking system. The agencies encourage institutions that seek to adopt Basel II-based rules at their inception to continue with their implementation efforts. The agencies continue to target the existing implementation timeline for Basel II. However, the additional work noted above may cause the agencies to revisit this timeline. The agencies will provide additional information on the timing and other aspects of Basel II implementation as it becomes known.

#### *AGENCIES ISSUE CREDIT-RISK MANAGEMENT GUIDANCE FOR HOME-EQUITY LENDING*

The federal bank, thrift institution, and credit union regulatory agencies issued guidance on May 16, 2005, that promotes sound risk-management practices for home-equity lines of credit and loans. The agencies have found that in some cases credit-risk management practices for home-equity lending have not kept pace with the product's rapid growth and eased underwriting standards.

The rise in home values, coupled with low interest rates and favorable tax treatment, have made home-equity lines of credit and loans attractive to consumers. To date, delinquency and loss rates for home-equity portfolios have been low, due at least in part to the modest repayment requirements and relaxed structures of this lending. However, the agencies have identified risk factors that, along with vulner-

ability to interest rate increases, have attracted scrutiny, including

- interest-only features that require no amortization of principal for a protracted period;
- limited or no documentation of a borrower's assets, employment, and income;
- higher loan-to-value (LTV) and debt-to-income ratios;
- lower credit-risk scores for underwriting home-equity loans;
- greater use of automated valuation models and other collateral evaluation tools for the development of appraisals and evaluations; and
- an increased number of transactions generated through a loan broker or other third party.

The agencies note that active portfolio management is especially important for financial institutions that project or have already experienced significant growth or concentrations in higher-risk products, such as high LTV, limited documentation and no documentation interest-only, and third-party generated loans.

Like most other lending activity, home-equity lending can be conducted in a safe and sound manner with appropriate risk-management systems. This guidance outlines the agencies' expectations for sound underwriting standards and effective credit-risk management practices for a financial institution's home-equity lending activity.

#### *AGENCIES ISSUE FACT ACT INTERIM FINAL RULES ON MEDICAL INFORMATION*

The federal bank, thrift institution, and credit union regulatory agencies issued on June 6, 2005, interim final rules under the Fair Credit Reporting Act (FCRA) that create exceptions to the statutory prohibition against obtaining or using medical information in connection with credit eligibility determinations. The interim final rules also address the sharing of medically related information among affiliates.

The effective date for these rules is nine months after the date of publication in the *Federal Register*, which was on June 10, 2005.

Section 411 of the Fair and Accurate Credit Transactions Act of 2003 (FACT Act) amended the FCRA to provide that a creditor may not obtain or use medical information in connection with any determination of a consumer's eligibility, or continued eligibility, for credit except as permitted by regulations or the FACT Act. However, the FACT Act also requires

the agencies to prescribe regulations that permit creditors to obtain and use medical information for credit eligibility purposes when necessary and appropriate to protect legitimate operational, transactional, risk, consumer, and other needs. A proposed rule was published for comment on April 28, 2004.

The interim final rules create exceptions to the general statutory prohibition on obtaining and using medical information. The provisions are similar to those contained in the proposed rule and include exceptions for the use of medical information that is also financial information typically considered in credit underwriting. As authorized by the FACT Act, the agencies have expanded the scope of the rules so that the exceptions will apply to all creditors, not just to creditors ordinarily regulated by one of the agencies.

Section 411 of the FACT Act also amended the FCRA to limit the ability of creditors and others to share medically related information among affiliates except as permitted by the statute, regulation, or order. The interim final rules specify the circumstances in which creditors may share medically related information among affiliates without becoming consumer reporting agencies.

The interim final rules are being issued by 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 rules of each agency are substantively identical.

The rules are being issued as interim final rules to allow for public comment on their expanded scope. The agencies requested comment within thirty days after publication in the *Federal Register*.

#### *BANKING AGENCIES ANNOUNCE FINANCIAL INSTITUTION ENROLLMENT SCHEDULE FOR CENTRAL DATA REPOSITORY*

The Federal Financial Institutions Examination Council (FFIEC) Call Report agencies—the Federal Deposit Insurance Corporation (FDIC), the Board of Governors of the Federal Reserve System (FRB), and the Office of the Comptroller of the Currency (OCC)—announced on June 30, 2005, the schedule for financial institutions to enroll in the Central Data Repository (CDR). The CDR is a new Internet-based system created to modernize and streamline the way the agencies collect, validate, manage, and distribute financial data submitted by banks in quarterly "Call Reports." The new system is scheduled for imple-

mentation for the third quarter 2005 Call Report and will be the only method available for banks to submit their Call Reports.

In preparation for implementation of the CDR, financial institutions were assigned to one of eight week-long enrollment windows that began July 11, 2005. The implementation and enrollment plan was developed in cooperation with industry representatives, including software vendors, trade associations, and a number of banks from across the country that participate in the Financial Institutions Focus Group for the CDR project. Additional information on the CDR and the Call Report data modernization initiative is available at [www.FFIEC.gov/FIND](http://www.FFIEC.gov/FIND).

#### *BANKING AGENCIES ISSUE HOST STATE LOAN-TO-DEPOSIT RATIOS*

The Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency issued on July 7, 2005, the host state loan-to-deposit ratios that the banking agencies will use to determine compliance with section 109 of the Riegle–Neal Interstate Banking and Branching Efficiency Act of 1994. These ratios update data released on August 26, 2004.

In general, section 109 prohibits a bank from establishing or acquiring a branch or branches outside of its home state primarily for the purpose of deposit production. Section 109 also prohibits branches of banks controlled by out-of-state bank holding companies from operating primarily for the purpose of deposit production.

Section 109 provides a process to test compliance with the statutory requirements. The first step in the process involves a loan-to-deposit ratio screen that compares a bank's statewide loan-to-deposit ratio to the host state loan-to-deposit ratio for banks in a particular state.

A second step is conducted if a bank's statewide loan-to-deposit ratio is less than one-half of the published ratio for that state or if data are not available at the bank to conduct the first step. The second step requires the appropriate banking agency to determine whether the bank is reasonably helping to meet the credit needs of the communities served by the bank's interstate branches.

A bank that fails both steps is in violation of section 109 and is subject to sanctions by the appropriate banking agency.

The updated list of host state loan-to-deposit ratios are available on the Board's web site at

[www.federalreserve.gov/boarddocs/press/bcreg/2005/20050707/attachment.pdf](http://www.federalreserve.gov/boarddocs/press/bcreg/2005/20050707/attachment.pdf).

#### *BANK SECRECY ACT/ANTI-MONEY LAUNDERING INTERAGENCY OUTREACH EVENTS*

The federal banking and thrift institution agencies, along with the Financial Crimes Enforcement Network (FinCEN), announced on July 18, 2005, registration details for the upcoming outreach events related to the *Bank Secrecy Act/Anti-Money Laundering Examination Manual (BSA/AML Examination Manual)* that was released on June 30, 2005. The events included

- three nationwide conference calls to be held August 2–4, 2005; and
- five regional half-day outreach meetings, including a simulcast of one of the meetings via the Internet. These meetings were held in San Francisco, Dallas, Chicago, New York, and Miami.

Banking organizations were encouraged to participate in these voluntary sessions. The content of the events was similar. During the events, the *BSA/AML Examination Manual* was discussed and examination expectations were provided. There was also an opportunity to provide feedback, ask questions, and address implementation issues.

Participating in the outreach sessions was the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, the Office of Foreign Assets Control, and FinCEN.

The *BSA/AML Examination Manual* emphasizes a banking organization's responsibility to establish and implement risk-based policies, procedures, and processes to comply with the BSA and safeguard its operations from money laundering and terrorist financing.

For questions on the outreach events or the *BSA/AML Examination Manual*, banking organizations should contact the local office of their federal banking agency.

#### *BANKING AGENCIES ISSUE FINAL COMMUNITY REINVESTMENT ACT RULES*

The federal banking agencies approved on July 19, 2005, final Community Reinvestment Act (CRA) rules that are intended to reduce regulatory burden on

community banks while making CRA evaluations more effective in encouraging banks to meet community development needs. The final rules are essentially as the agencies proposed them in March 2005.

The final rules raise the small bank asset-size threshold to assets of less than \$1 billion without regard to holding company affiliation. Accordingly, the new rules reduce data collection and reporting burden for “intermediate small banks” (banks with assets between \$250 million and less than \$1 billion) and, at the same time, encourage meaningful community development lending, investment, and services by these banks.

The following policies are under the new rules:

- Intermediate small banks will no longer need to collect and report CRA loan data. Nevertheless, examiners will continue to evaluate bank lending activity in the CRA examinations of intermediate small banks and disclose results in the public evaluation.
- Intermediate small banks will be evaluated under two separately rated tests: the small bank lending test; and a flexible new community development test that includes an evaluation of community development loans, investments, and services in light of community needs and the capacity of the bank. Satisfactory ratings are required on both tests to obtain an overall satisfactory CRA rating.

In addition, the following policies apply to banks of any size:

- The new rules expand the definition of community development to include activities that revitalize or stabilize designated disaster areas and distressed or underserved rural areas. By including designated distressed or underserved rural areas, the agencies intend to recognize and encourage community development in more rural areas. (Designated distressed or underserved rural areas are to be listed by the agencies on the Federal Financial Institutions Examination Council web site at [www.FFIEC.gov/cra](http://www.FFIEC.gov/cra).)
- The regulations also clarify when discrimination or other illegal credit practices by a bank or its affiliate will adversely affect an evaluation of the bank’s CRA performance.

The rules, which are being issued jointly by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency, became effective on September 1, 2005. The agencies had

interim CRA examination procedures for intermediate small banks in place by August 1, 2005.

#### *AGENCIES PROPOSE RULES ON POST-EMPLOYMENT RESTRICTIONS FOR SENIOR EXAMINERS*

The federal banking regulatory agencies issued proposed rules on August 4, 2005, to implement a special post-employment restriction on certain senior examiners employed by an agency or Federal Reserve Bank, as required by the Intelligence Reform and Terrorism Prevention Act of 2004.

Under the proposal, if an examiner serves as the senior examiner for a depository institution or depository institution holding company for two or more months during the examiner’s final twelve months of employment with an agency or Reserve Bank, the examiner may not knowingly accept compensation as an employee, officer, director, or consultant from that institution or holding company, or from certain related entities. The restriction applies for one year after leaving the employment of the agency or Reserve Bank. If an examiner violates the one-year restriction, the act requires the appropriate federal banking agency to seek an order of removal and industry-wide employment prohibition for up to five years, a civil money penalty of up to \$250,000, or both.

The agencies’ proposed rules are substantively similar and vary slightly to reflect differences in the supervisory programs and jurisdictions of the agencies.

Comments on the proposed rules are due sixty days after publication in the *Federal Register*, which was on August 5, 2005.

#### *BANK SECRECY ACT/ANTI-MONEY LAUNDERING INTERAGENCY OUTREACH EVENT WEBCAST*

The federal banking and thrift institution agencies, along with the Financial Crimes Enforcement Network (FinCEN), announced registration details on August 8, 2005, for a live webcast of the *Bank Secrecy Act/Anti-Money Laundering Examination Manual* outreach event that was held in New York on August 22, 2005.

The webcast was open to all parties interested in BSA/AML compliance issues, but registration was required. The outreach event was held from 9 a.m. to noon EDT and will be available for on-demand viewing for three months after the presentation.

The event is part of a series of briefings for the banking industry and field examiners on the *BSA/AML Examination Manual*. The host organizations are the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and FinCEN. Also participating in these outreach events are state banking agencies, the Office of Foreign Assets Control, banking organizations, and banking trade associations.

#### FINANCIAL EDUCATION WEB SITE REDESIGNED

The Federal Reserve System announced on April 18, 2005, that it has redesigned its financial education web site to increase the use of Federal Reserve educational materials and promote financial education in the classroom. The new web site incorporates four Federal Reserve web sites under one main Federal Reserve Education web site.

The redesigned web site ([www.FederalReserveEducation.org](http://www.FederalReserveEducation.org)) has material intended for the general public, as well as materials specifically geared toward teachers and high school and college students. The site includes a new look and feel, while providing easier access to free educational materials, a teacher resource search engine, personal financial education, as well as new multi-level games for various ages and knowledge levels.

“The Federal Reserve has a long history of promoting economic education and financial literacy. In that tradition, this new online tool offers students easier access to a wealth of information in the areas of economics, banking, and financial services,” said Federal Reserve Board Chairman Alan Greenspan.

The redesigned web site includes four sections:

- Federal Reserve Education, which provides instructional materials and tools to increase teachers’ and students’ understanding of the Federal Reserve, economics, and personal finances. Resources include publications and videos, online learning, and links to Federal Reserve System and other economic education web sites.

- Fed 101, an interactive site that provides an overview of the history and organization of the Federal Reserve System, monetary policy and federal regulations, and services provided to depository institutions.

- Personal Financial Education, which helps people make informed decisions about their money and provides guidance for building a stable financial future. The site includes information on topics such

as consumer banking, consumer protection, homes and mortgages, interest rates, loans, and credit.

- Teacher Resources, a new site that provides a search tool to allow teachers to locate Federal Reserve System education materials that meet national education standards for incorporation in their lesson plans. The resources on the site include comic books, brochures, teaching guides, magazines, and newsletters on a variety of financial education topics.

#### PUBLICATION OF THE *INTERNATIONAL JOURNAL OF CENTRAL BANKING*

The Federal Reserve Board, along with the other sponsoring organizations of the *International Journal of Central Banking* (IJCB), announced on May 19, 2005, the publication of the journal’s first issue and the launch of a web site ([www.ijcb.org](http://www.ijcb.org)) hosted by the Bank for International Settlements.<sup>1</sup>

The IJCB, a new quarterly publication, features articles on central bank theory and practice, with a special emphasis on research relating to monetary and financial stability. The IJCB web site provides additional information about the journal as well as free access to journal articles.

Subscribers to the printed version of the journal will receive issues for 2005 at no cost. Beginning in 2006, print subscriptions will be available for an annual fee of U.S.\$100. Subscription orders may be placed online at [www.ijcb.org](http://www.ijcb.org), or by telephone (202) 452-3245, facsimile (202) 728-5886, or e-mail ([BDM-IJCB-Editor@frb.gov](mailto:BDM-IJCB-Editor@frb.gov)). Written correspondence should be directed to IJCB—Publications Fulfillment, Mail Stop 127, Board of Governors of the Federal Reserve System, 20th and C Streets, N.W., Washington, DC 20551.

#### MAY 2005 UPDATE TO THE *COMMERCIAL BANK EXAMINATION MANUAL*

The May 2005 update to the *Commercial Bank Examination Manual* has been published (supplement no. 23). The *Manual* comprises the Federal

1. Sponsoring organizations are the following: Bank of Algeria, National Bank of Belgium, Central Bank of Brazil, Bank of Canada, People’s Bank of China, Bank of England, European Central Bank, Bank of France, Deutsche Bundesbank, Bank of Greece, Hong Kong Monetary Authority, Central Bank of Iceland, Bank of Italy, Bank of Japan, Netherlands Bank, Norges Bank, Bank of Portugal, Central Bank of Russian Federation, Monetary Authority of Singapore, Bank of Spain, Sveriges Riksbank, Swiss National Bank, Central Bank of Turkey, Federal Reserve Board, and Bank for International Settlements.

Reserve System's supervisory and examination guidance for state member banks. The new supplement includes guidance on the following subjects:

1. *Interagency Statement on the Purchase and Risk Management of Life Insurance.* A new section discusses this December 7, 2004, statement placing emphasis on the safety and soundness and risk-management implications of purchases and holdings of life insurance by banks. The agencies issued the guidance because they were concerned that some institutions may not have an adequate understanding of the risks associated with bank-owned life insurance (BOLI), including liquidity, operational, reputational, and compliance or legal risks. Further, institutions may have committed a significant amount of capital to BOLI holdings without properly assessing the associated risks. When an institution is planning to acquire BOLI that will result in an aggregate cash surrender value in excess of 25 percent of its tier 1 capital plus the allowance for loan and lease losses, the agencies expect the institution to obtain the approval of its board of directors or its designated board committee. The guidance addresses the need for institutions to conduct a comprehensive pre- and post-purchase analysis of BOLI, including its unique characteristics, risks, and rewards. Institutions are expected to have comprehensive risk-management processes for their BOLI purchases and holdings; these processes should be consistent with safe and sound banking practices. See SR letters 04-4 and 04-19.

2. *Interagency Advisory on Accounting for Deferred Compensation Agreements and Bank-Owned Life Insurance.* A new section, "Deferred Compensation Agreements" provides guidance from this February 11, 2004, interagency advisory. The advisory was issued because the agencies, through the examination process, had identified many institutions that had incorrectly accounted for the obligations under a type of deferred compensation agreement commonly referred to as a *revenue neutral plan* or an *indexed retirement plan*. The advisory informs institutions that they need to review their accounting for deferred compensation agreements to ensure that they have been appropriately measured and reported. Since institutions often purchase life insurance in conjunction with established deferred compensation programs, the advisory also discusses the appropriate accounting treatment for BOLI. The revised "Other Assets and Other Liabilities" section includes the accounting treatment for BOLI. See SR letters 04-04 and 04-19.

3. *Interagency Joint Guidance on Overdraft Protection Programs.* The sections entitled "Consumer Credit" have been revised to discuss the various types, characteristics, and fee structures of a bank's ad hoc and automated overdraft programs. The sections also include the February 18, 2005, interagency guidance that addresses the agencies' concerns about the potentially misleading implementation, marketing, and disclosure practices associated with the operation of these programs. Financial institutions are encouraged to review their overdraft-protection policies and procedures to make certain that their marketing and communications do not mislead consumers or encourage irresponsible consumer financial behavior that could increase the institution's risk. The guidance also addresses

the safety and soundness considerations, risk-based capital treatment, and legal risks associated with overdraft-protection programs.

The sections entitled "Deposit Accounts" have also been revised to discuss this interagency guidance, which was issued to assist banks in the responsible disclosure and administration of their overdraft-protection programs. The guidance states that banks should establish and monitor written policies and procedures for ad hoc and automated, or other overdraft-protection programs. A bank's policies and procedures should be adequate to address the credit, operational, and other risks associated with these types of programs. The examination procedures and internal control questionnaires have been updated to incorporate the guidance. See SR letter 05-3 and CA letter 05-2.

4. *Foreign Correspondent Accounts.* The "Bank-Related Organizations" section has been revised to incorporate the U.S. Department of the Treasury's regulation regarding foreign correspondent accounts. See 31 CFR 103.177 (amended December 24, 2002) and 103.185. The regulation became effective October 28, 2002, and implemented sections 313 and 319(b) of the USA Patriot Act. A covered financial institution (CFI) is prohibited from establishing, maintaining, administering, or managing a correspondent account in the United States for, or on behalf of, a foreign shell bank (a foreign bank that has no physical presence in the United States or other jurisdictions) that is *not* affiliated (1) with a U.S.-domiciled financial institution or (2) with a foreign bank that maintains a physical presence in the United States or a foreign country and is supervised by its home-country banking authority. A CFI that maintains a correspondent account for a foreign bank in the United States must maintain records in the United States identifying the owners of the bank. See SR letter 03-17 and the October 2003 Bank Secrecy Act Examination Procedures for Correspondent Accounts for Foreign Shell Banks; Recordkeeping and Termination of Correspondent Accounts for Foreign Banks. See also SR letter 01-29.

5. *Interagency Guidelines Establishing Information Security Standards and Interagency Guidance on Response Programs for Unauthorized Access to Customer Information and Customer Notice.* The sections entitled, "Information Technology" have been revised to include the Board's December 16, 2004, adoption of rule changes (effective July 1, 2005) that implement section 216 of the Fair and Accurate Credit Transactions Act of 2003, and amend the Interagency Guidelines Establishing Standards for Safeguarding Customer Information. See the Board's December 21, 2004, press release. To address the risks associated with identity theft, financial institutions are required to make modest adjustments to their information security programs to develop, implement, maintain, and monitor, as part of their existing information security program, appropriate measures to properly dispose of consumer and customer information derived from credit reports. Each financial institution must contractually require its service providers to develop appropriate measures for the proper disposal of the institution's consumer and customer information and, when warranted, monitor its service providers to confirm that they have satisfied their contractual obligations.

The sections have also been revised to include the Board's March 21, 2005, adoption of the jointly issued Interagency Guidance on Response Programs for Unauthorized Access to Customer Information and Customer Notice. See the Board's March 23, 2005, press release. Financial institutions are to develop and implement a response program designed to address incidents of unauthorized access to sensitive customer information, maintained by the institution or its service provider, that could result in substantial harm or inconvenience to the customer. Each financial institution has the flexibility to design a risk-based response program tailored to the size, complexity, and nature of its operations. Customer notice is a key feature of an institution's response program. See Regulation H, appendix D-2, supplement A (12 CFR 208, appendix D-2, supplement A). The examination objectives, examination procedures, and the internal control questionnaire have been updated to incorporate or reference the rule changes and the interagency guidance.

6. *Interagency Advisory on the Confidentiality of the Supervisory Rating and Other Nonpublic Supervisory Information.* The February 28, 2005, advisory 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.

7. *Customer Identification Programs.* The "Private Banking" section has been revised to incorporate new and enhanced statutory requirements of the USA Patriot Act (the act). The requirements are designed to prevent, detect, and prosecute money laundering and terrorist financing. For banking organizations, the act's provisions are implemented through regulations issued by the U.S. Department of the Treasury (31 CFR 103). Section 326 of the USA Patriot Act (codified in the BSA at 31 U.S.C. 5318)(I) requires financial institutions to have customer identification programs, that is, programs to collect and maintain certain records and documentation on customers. Institutions should also develop and use identity verification procedures to ensure the identity of customers. See SR letter 04-13, which describes the BSA examination procedures for customer identification programs; examiners should follow these procedures when evaluating compliance with the regulation. See also SR letters 03-17 and 01-29. Relevant interagency interpretive guidance, in a question-and-answer format, addresses the customer identification rules. See SR letter 05-9.

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 distribution to examiners and other System staff members. 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/](http://www.federalreserve.gov/boarddocs/supmanual/).

## *AGENCIES RELEASE BANK SECRECY ACT/ ANTI-MONEY LAUNDERING EXAMINATION MANUAL*

The Federal Financial Institutions Examination Council (FFIEC) released on June 30, 2005, the *Bank Secrecy Act/Anti-Money Laundering Examination Manual (FFIEC BSA/AML Examination Manual)*. The manual's release marks an important step forward in the effort to ensure the consistent application of the BSA to all banking organizations, including commercial banks, savings associations, and credit unions.

The *FFIEC BSA/AML Examination Manual* was developed by the Board of Governors of the Federal Reserve System (Board), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS) (collectively referred to as the federal banking agencies) in collaboration with the Financial Crimes Enforcement Network (FinCEN), the delegated administrator of the BSA. In addition, through the Conference of State Bank Supervisors, the state banking agencies played a consultative role. The Office of Foreign Assets Control (OFAC) collaborated on the development of core overview and examination procedures addressing compliance with regulations enforced by OFAC.

The *FFIEC BSA/AML Examination Manual* emphasizes a banking organization's responsibility to establish and implement risk-based policies, procedures, and processes to comply with the BSA and safeguard its operations from money laundering and terrorist financing. The BSA/AML examination procedures will guide examiners through an evaluation of a banking organization's BSA/AML compliance program regardless of its size or business lines. The majority of the *FFIEC BSA/AML Examination Manual* provides narrative guidance and resource materials rather than specific examination procedures. This includes an overview of the BSA requirements and the federal banking agencies' supervisory expectations in this area.

The Board, the FDIC, the OCC, the OTS, and FinCEN have planned a series of events to brief the banking industry and field examiners on the *FFIEC BSA/AML Examination Manual*. These events include nationwide conference calls, regional outreach meetings, and a simulcast via the Internet. Banking organizations are encouraged to participate in these voluntary sessions.

*ONLINE FINANCIAL EDUCATION PROJECT*

The Federal Reserve Board launched on July 26, 2005, a new online project with USA Today that teaches middle-school and high-school students about economics and personal finances by challenging them to construct a newspaper front page.

Students are provided with instructions and a template of the front page of *The Fed Today*. Over four weeks, they are expected to consult the Federal Reserve's recently redesigned education web site—[FederalReserveEducation.org](http://FederalReserveEducation.org)—for information needed to complete all of the elements of the page, including headlines, photos, captions, graphs, and statistics. The project helps teachers meet national and state academic content standards for high-school economics and personal finance courses. The online project may be found on the web at [www.usatoday.com/educate/federalreserve/index\\_new2.html](http://www.usatoday.com/educate/federalreserve/index_new2.html).

*MINUTES OF THE BOARD'S DISCOUNT RATE MEETINGS*

The Federal Reserve Board released on April 19, 2005, the minutes of its discount rate meetings from February 7, 2005, through March 22, 2005.

On May 31, 2005, the Board released the minutes of its discount rate meetings from April 4, 2005, through May 3, 2005.

On July 28, 2005, the Board released the minutes of its discount rate meetings from May 23, 2005, through June 30, 2005.

*MINUTES OF THE FEDERAL OPEN MARKET COMMITTEE*

The Federal Reserve Board and the Federal Open Market Committee, released on May 24, 2005, the minutes of the Committee meeting held on May 3, 2005.

On July 21, 2005, the Federal Reserve Board and the Federal Open Market Committee released the minutes of the Committee meeting held on June 29–30, 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 that was 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](http://www.federalreserve.gov/fomc).

*CONSUMER ADVISORY COUNCIL MEETING*

The Board of Governors of the Federal Reserve System announced on June 3, 2005, that the Consumer Advisory Council would hold its next meeting on Thursday, June 23, 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 on the 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:

- Truth in Lending Act
- Information security
- Community Reinvestment Act and community development

Reports by committees and other matters initiated by the Council members were also discussed. The Board invited comments from the public on any of these matters.

*BOARD SEEKS NOMINATIONS FOR APPOINTMENTS TO CONSUMER ADVISORY COUNCIL*

The Federal Reserve Board announced on June 15, 2005, that it is seeking nominations for appointments to its Consumer Advisory Council.

The Council advises the Board on the exercise of its responsibilities under various consumer financial services laws and on other matters on which the Board seeks advice. The group meets in Washington, D.C., three times a year.

Ten new members will be appointed to serve three-year terms beginning in January 2006. Nominations should include a résumé and the following information about nominees:

- complete name, title, mailing address, e-mail address, telephone, and fax numbers;
- organization's name, brief description of organization, address, telephone, and fax numbers;
- past and present positions, dates, and description of responsibilities;

- knowledge, interests, or experience related to community reinvestment, consumer protection regulations, consumer credit, or other consumer financial services; and
- positions held in community and banking associations, councils, and boards.

Nominations should also include the nominator's complete name, organization name, title, mailing address, e-mail address, and telephone and fax numbers.

Letters of nomination with complete information, including a résumé for each nominee, were to be received by August 26, 2005.

### *ENFORCEMENT ACTIONS*

#### *Assessments of Civil Money Penalties*

The Federal Reserve Board announced on April 21, 2005, the issuance of a consent order of assessment of a civil money penalty against the Irwin Union Bank, Columbus, Indiana, a state member bank. Irwin Union Bank, without admitting to any allegations, consented to the issuance of the order in connection with its alleged violations of the Board's regulations implementing the National Flood Insurance Act.

The order requires Irwin Union Bank to pay a civil money penalty of \$22,300, which will be remitted to the Federal Emergency Management Agency for deposit into the National Flood Mitigation Fund.

The Federal Reserve Board announced on April 21, 2005, the issuance of a consent order of assessment of a civil money penalty against The Bank, Warrior, Alabama, a state member bank. The Bank, without admitting to any allegations, consented to the issuance of the order in connection with its alleged violations of the Board's regulations implementing the National Flood Insurance Act.

The order requires The Bank to pay a civil money penalty of \$46,050, which will be remitted to the Federal Emergency Management Agency for deposit into the National Flood Mitigation Fund.

The Federal Reserve Board announced on June 9, 2005, the issuance of a consent order of assessment of a civil money penalty against the Bank of Pontiac, Pontiac, Illinois, a state member bank. The Bank of Pontiac, without admitting to any allegations, consented to the issuance of the order in connection with its alleged violations of the Board's regulations implementing the National Flood Insurance Act.

The order requires the Bank of Pontiac to pay a civil money penalty of \$32,550, which will be remitted to the Federal Emergency Management Agency for deposit into the National Flood Mitigation Fund.

The Federal Reserve Board announced on June 9, 2005, the issuance of a consent order of assessment of a civil money penalty against the First Bank and Trust Company, Lebanon, Virginia, a state member bank. The First Bank and Trust Company, without admitting to any allegations, consented to the issuance of the order in connection with its alleged violations of the Board's regulations implementing the National Flood Insurance Act.

The order requires the First Bank and Trust Company to pay a civil money penalty of \$7,750, which will be remitted to the Federal Emergency Management Agency for deposit into the National Flood Mitigation Fund.

The Federal Reserve Board announced on July 6, 2005, the issuance of a consent order of assessment of a civil money penalty against the Frontier Bank, Everett, Washington, a state member bank. Frontier Bank, without admitting to any allegations, consented to the issuance of the order in connection with its alleged violations of the Board's regulations implementing the National Flood Insurance Act.

The order requires Frontier Bank to pay a civil money penalty of \$12,500, which will be remitted to the Federal Emergency Management Agency for deposit into the National Flood Mitigation Fund.

The Federal Reserve Board announced on July 6, 2005, the issuance of a consent order of assessment of a civil money penalty against the Security Bank, Ralls, Texas, a state member bank. Security Bank, without admitting to any allegations, consented to the issuance of the order in connection with its alleged violations of the Board's regulations implementing the National Flood Insurance Act.

The order requires Security Bank to pay a civil money penalty of \$3,250, which will be remitted to the Federal Emergency Management Agency for deposit into the National Flood Mitigation Fund.

#### *Written Agreements*

The Federal Reserve Board announced on April 25, 2005, the execution of a written agreement by and between the Civitas BankGroup, Inc., Franklin, Tennessee, and the Federal Reserve Bank of Atlanta.

The Federal Reserve Board announced on April 29, 2005, the execution of a written agreement by and among Banco Industrial de Venezuela, C.A., Caracas, Venezuela; Banco Industrial de Venezuela, C.A. New York Agency, New York, New York; Banco Industrial de Venezuela, C.A. Miami Agency, Miami, Florida; the New York State Banking Department, New York, New York; the State of Florida Office of Financial Regulation, Tallahassee, Florida; the Federal Reserve Bank of New York; and the Federal Reserve Bank of Atlanta.

The Federal Reserve Board announced on July 14, 2005, the execution of a written agreement by and among the First Citizens Bank of Butte, Butte, Montana; the Montana Division of Banking and Financial Institutions; and the Federal Reserve Bank of Minneapolis.

### *Final Decisions and Orders*

The Federal Reserve Board announced on May 13, 2005, the issuance of a final decision and order of prohibition against Donald K. McKinney, a former vice president of American National Bank, Wichita Falls, Texas. The order, the result of an action brought by the Office of the Comptroller of the Currency, prohibits Mr. McKinney from participating in the conduct of the affairs of any financial institution or holding company.

The Federal Reserve Board announced on June 7, 2005, the issuance of a final decision and cease and desist order against eighteen former institution-affiliated parties of First Western Bank, Cooper City, Florida, and an order of prohibition against Carl V. Thomas, one of the former institution-affiliated parties. The orders were the result of an action brought by the Board to address violations of the Change in Bank Control Act in connection with the respondents' acquisition of shares of First Western Bank in 1997 and 1998.

The Federal Reserve Board announced on June 17, 2005, the issuance of an order of prohibition against Frank G. Caton, previously branch manager of the former Farmers Bank of Maryland, Annapolis, Maryland.

Mr. Caton, without admitting to any allegations, consented to the issuance of the order based on his alleged participation in violations of law and breaches of fiduciary duty to the bank and its customers in connection with embezzlement of funds and falsification of the bank's books and records.

The Federal Reserve Board announced on June 28, 2005, the issuance of an order of prohibition and order to cease and desist against Matthew T. Stromgren, a former financial adviser at J.P. Morgan Chase and Company, New York, New York.

Mr. Stromgren, without admitting to any allegations, consented to the issuance of the order based on his alleged participation in violations of law and breaches of fiduciary duty to the bank and its customers in connection with embezzlement of funds, forgery, and falsification of the bank's books and records. The order requires Mr. Stromgren to make restitution to the bank in the amount of \$31,000.

The Federal Reserve Board announced on July 21, 2005, the issuance of an order of prohibition against Stefanie Milmine, a former employee of Fifth Third Bank in Grand Rapids, Michigan.

Ms. Milmine, without admitting to any allegations, consented to the issuance of the order based on her alleged participation in violations of law and breaches of fiduciary duty in connection with embezzlement of funds at the bank, as well as similar violations and breaches at other banks.

The Federal Reserve Board announced on August 1, 2005, the issuance of a cease and desist order and order of assessment of a civil money penalty against Frank French, a former institution-affiliated party of the Montana State Bank, Plentywood, Montana.

Mr. French, without admitting to any allegations, consented to the issuance of the order for alleged violations of the Board of Governors' Regulation O, which governs loans to executive officers, directors, and principal shareholders of member banks. The order also requires Mr. French to pay a civil money penalty of \$10,000.

### *Termination of Enforcement Actions*

The Federal Reserve Board announced on April 21, 2005, the termination of the enforcement actions listed below. The Federal Reserve's enforcement action web site, [www.federalreserve.gov/boarddocs/enforcement](http://www.federalreserve.gov/boarddocs/enforcement), reports the terminations as they occur.

- Bank of the Orient, San Francisco, California  
Cease and desist order dated May 7, 2002  
Terminated April 18, 2005
- Gold Bank, Leawood, Kansas, and Gold Banc Corporation, Inc., Leawood, Kansas  
Written agreement dated August 26, 2003  
Terminated April 19, 2005

*CHANGES IN BOARD STAFF*

Herbert A. Biern, senior associate director, in the Division of Banking Supervision and Regulation, retired from the Board on May 13, 2005, after twenty-five years of service.

The Board of Governors approved on May 4, 2005, the appointment of Robin L. Lumsdaine as associate director for Quantitative Risk Management, Division of Banking Supervision and Regulation. Ms. Lumsdaine will now report to Deputy Director Stephen M. Hoffman. In her new position, Ms. Lumsdaine will establish a Quantitative Risk Management section that will work with Reserve Banks and other financial market authorities to implement Basel II and oversee advanced risk-management and risk-measurement techniques.

Ms. Lumsdaine recently served as director, Global Real Rates and Agency Strategist and Global Econometric Strategist for Deutsche Bank. Previously, she was a senior economist at the White House Council of Economic Advisers and a professor of economics at Brown University. Earlier in her career, she was an assistant professor at Princeton University. Ms. Lumsdaine holds a BS in mathematics from Brown University and a master's degree and doctorate in economics from Harvard University.

After forty-one years of service with the Federal Reserve Board, including thirty-four years as a member of the Board's official staff, Mr. Edward Ettin retired on July 29, 2005.

The Board of Governors approved on June 16, 2005, the following officer actions in the Division of Research and Statistics in conjunction with a reorganization of the division:

Patrick M. Parkinson was promoted to deputy director. He will have oversight responsibilities for the micro-financial functions of the division and play a leadership role throughout the Board and the System on issues relating to financial regulations and financial stability. Mr. Parkinson joined the Board in 1980 as an economist in the Division of International Finance and moved to the Division of Research and Statistics in 1984. In 1986 he joined the Division of Banking Supervision and Regulation as the manager of the Financial Analysis section. He returned to Research and Statistics in 1988 as chief of the Capital Markets section. He was promoted to assistant director in 1989 and to associate director in 1994. Mr. Par-

kinson received his PhD in economics from the University of Wisconsin-Madison.

Myron L. Kwast was promoted to senior associate director. He will share responsibility with Mr. Parkinson for the Division's work on issues related to financial regulations and financial stability, with a special focus on banking analysis and competition policy. Mr. Kwast joined the Board in 1978 as an economist in the Financial Studies section. He was promoted to chief of that section in 1985, to assistant director in 1987, and to associate director in 1994. Mr. Kwast received his PhD in economics from the University of Wisconsin-Madison.

A. Patricia White was promoted to associate director for the Risk Analysis, Microstatistics, and Financial Reports sections. Ms. White joined the Board in 1979 as an economist in the Financial Structure section. She served as special assistant to Governor Wallich in 1982 and then returned to the Division of Research and Statistics. She was promoted to chief of the newly created Trading Risk Analysis section in 1993, to assistant director in 2000, and to deputy associate director in 2004. Ms. White received her PhD in economics from Yale University.

S. Wayne Passmore was promoted to deputy associate director of the Financial Studies and the Financial Structure sections. In 1984 Mr. Passmore began his career at the Federal Reserve Bank of New York. He worked briefly at the Board as a staff economist in 1987 before taking a management position with the Federal Home Loan Bank in San Francisco. Mr. Passmore returned to the Board in 1990 as a senior economist in the Capital Markets section. He was promoted to chief of the newly formed Household and Real Estate Finance section in 1997 and, in 2000, was promoted to assistant director and chief. Mr. Passmore received a PhD in economics from the University of Michigan.

Janice Shack-Marquez was promoted to deputy associate director. She will continue to provide oversight for the Research Library, the Automation and Research Computing (ARC) section, and Administration. Ms. Shack-Marquez joined the Board in 1986 as an economist in the Economic Activity section (now Macroeconomic Analysis). She was promoted to chief of the ARC section in 1994 and to assistant director in 1997. In 2001 she assumed responsibility for the Research Library. Ms. Shack-Marquez received her PhD in public policy analysis from the University of Pennsylvania.

Robin A. Prager was appointed assistant director and chief of the Financial Structure section. Ms. Prager joined the Board in 1994 as an economist

in the Financial Structure section. She was promoted to senior economist in 1998 and to chief in 2000. Before joining the Board, she taught in the business schools of Vanderbilt University, Boston University, and the Massachusetts Institute of Technology (MIT). Ms. Prager received her PhD in economics from MIT.

Michael S. Cringoli was appointed assistant director and chief of the Automation and Research Computing (ARC) section. Mr. Cringoli began his career at the Board in 1983 as a computer applications programmer in the Division of Data Processing. In 1985 he transferred to the Division of Research and Statistics as part of the new ARC section that designed and built the original Unix network that supported the computing work of the division. Mr. Cringoli was promoted to chief of the ARC

section in 2000. Before joining the Board, he worked as a project planner for the Maryland National Capital Park and Planning Commission and as a manager with Dames and Moore Engineering Consultants. Mr. Cringoli received his bachelor's degree in geography from Rutgers University.

Jim Houpt, associate director in the Division of Banking Supervision and Regulation, retired from the Board at the end of August after thirty-two years of service and nearly four years in the United States Army.

Irene (Shawn) McNulty, senior adviser in the Division of Consumer and Community Affairs, will retire on September 30, 2005, after more than thirty-three years of service. □