

SUPERVISION AND LENDING



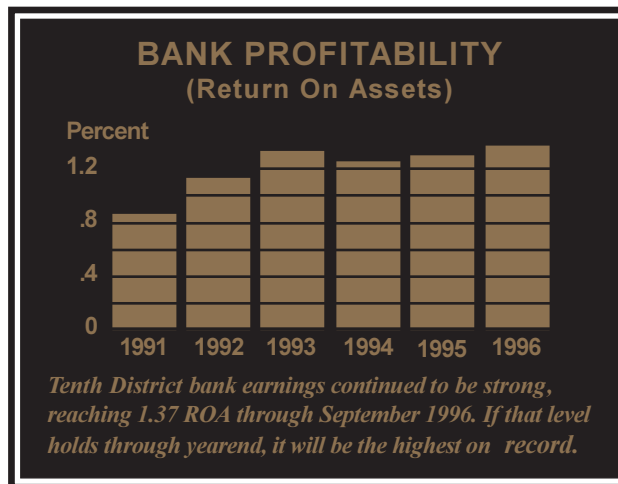
For most Tenth Federal Reserve District banks, 1996 was a good year. District banks reported their fourth straight year of strong earnings and, while loan portfolios expanded, asset quality remained strong as nonperforming assets stayed near historic lows. However, some district banks experienced an increase in consumer loan delinquencies and charge-offs, primarily in their credit card portfolios. Nonperforming loans also increased for agricultural banks in areas of the region affected by drought in the first half of the year.

Tenth District banking continues to become more concentrated as banks in the region merge and/or are acquired by large out-of-district banking organizations. The number of banks in the district fell by 2.6 percent through September 1996. Since 1991, the number of banks in the district has declined by 23 percent. Within the consolidating regional banking scene, however, banks remain competitive through offerings of new financial services such as debit cards, Internet banking, and other electronic banking products.

Increasing banking consolidation, complexity, and innovation challenge bank supervision to be flexible and responsive. To meet this objective, the Bank's supervision function was involved in a number of initiatives in 1996. One initiative was to imple-

ment an examination process that focuses on a bank's most risky activities and on its associated systems and controls. This risk-focused approach significantly reduced on-site exam time, lessened the burden for the supervised bank, and reduced the Reserve Bank's exam costs without compromising basic safety and soundness objectives.

Another 1996 initiative was the implementation of the new Community Reinvestment Act (CRA) regulation, which focuses supervisory assessments of CRA performance on the outcome of a bank's efforts to meet community credit needs. Under this new approach, CRA assessments more accurately reflect a bank's performance, associated supervision is reduced, and CRA exams are more consistent.



As banks have consolidated and begun operations across state lines, cooperation among supervisory agencies has become more important. An important accomplishment for the Bank in 1996 was the signing of cooperative agreements with the Federal Deposit Insurance Corporation and state bank supervisors in the region to create "seamless supervision" and a reduced supervisory burden for state-chartered banks that establish interstate branches.



Because of its regional presence, the Reserve Bank is uniquely positioned to represent banks and the banking public in forums involving supervision and regulation policy matters. During 1996, the Bank stepped forward in this role in a number of ways. For example, the Bank participated in Congressional hearings on the impact of the drought and high grain prices on rural banks, and conducted a series of banker roundtable meetings around the region to gather information on banking conditions and views on the supervisory process and other matters.

Responsive supervision requires open communications that promote bankers' understanding of supervisory issues while enhancing the Reserve Bank's knowledge of banking conditions and banker concerns. The Bank bolstered communication by hosting seminars on safety and soundness and compliance issues, and providing advisory sessions to help bankers understand new consumer legislation. The Bank also co-sponsored with the University of Missouri-Kansas City a conference to inform bank directors about emerging technologies in banking.

To support community development initiatives, the Bank hosted a "Financing Rural America"

conference that explored ways to improve rural communities' access to capital markets. In addition, the Bank was involved in 70 seminars and workshops on development finance, fair lending, and community development to help lenders and communities understand the issues in making banking more accessible to a diverse population. The Bank also published material on CRA lending and issued a resource guide to financing housing and economic development.

The 'Financing Rural America' conference in 1996 explored ways to improve rural communities' access to capital markets.

As part of its central bank responsibilities, the Bank lends funds to district depository institutions with short-term liquidity needs and, for qualified smaller institutions, longer-term seasonal credit. Liquidity tightened for some depository institutions in 1996; the Bank's lending was up 30 percent from 1995 levels.

In summary, given the dynamic and increasingly complex banking environment during 1996, the Bank worked to ensure that its supervisory and lending responsibilities were met effectively. In particular, the Bank implemented initiatives designed to improve supervisory responsiveness and reduce costs and supervisory burden. An important element in the Bank's progress was active interaction with bankers and the public on banking conditions and issues.