WORKING PAPER

No. 95-15G

BANK REGULATION: A COST COMPARISON

by

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ABSTRACT

Commercial Banks may operate under the rules, procedures, and regulations of either State Charter or National Charter. This paper studied the costs associated with banking regulations under the two charters. "Small" banks intending to remain of relative small size for the long term should find some minor relief by operating under a National Charter while the "large" bank could find some relief by operating under a State charter. Bank managers should therefore be aware of the costs associated with each charter. It should be noted that both conclusions are subject to an ever changing regulatory environment and benefits under today's charter's may not hold for the long term.

INTRODUCTION

At the core of the U.S. financial structure is a dual banking system that is designed, in part, to protect the interest of consumers by controlling and monitoring the activities and operations within the financial services industry. It is a system of redundancy, burdening the process of supplying money to the U.S. and world markets, with both state and federal regulation. Even more, the federal regulation consist of three agencies with overlapping jurisdictions.

Recent deregulation of the banking industry has resulted in ever more burdensome and costly regulatory requirements that in many cases have overwhelmed banks of all sizes. Some bankers believe that the burden of bank regulation has reached a crisis state, such that some banks restrict or eliminate certain customer products and to face higher operational expenses and lower productivity.

Compiling a list of regulations that banks must contend with would seem like an endless task. The list would include congressional acts such as the Community Reinvestment Act, the Home Mortgage Disclosure Act, and the Financial Institutions Reform, Recovery, and Enforcement Act. Other regulations regarding topics such as Truth-In-Lending, Equal Credit opportunity, Funds Availability, and Real Estate Settlement Procedures would also have to be included - all requiring excessive paperwork and additional costs.

A study by the American Bankers Association concluded that congress and regulators have inadvertently created a mountain of burden from this accumulation of well-intended bank
regulation. Additionally it concluded that this burden is overwhelming small community banks and shackling the money center banks, hurting the competitiveness of U.S. banks at home and abroad. The analysis pointed out that at least 10,000 full-time U.S. bank employees are occupied with the preparation and filing of federal forms alone, and that compliance costs accounted for one to four percent of annual incomes within the industry.

Commercial banking institutions operating within the U.S. may be organized in accord with the rules and regulations set forth by one of two organizational charters. Banks organized under the terms of a National charter are directly supervised and monitored by the Office of Comptroller of Currency (OCC), the Federal Reserve Banking System, and the Federal Depository Insurance Corporation (FDIC). Banks organized under the terms of a State charter are governed by a State agency for the particular state in which they are granted charter and the FDIC. The agency for the State of Texas is the Texas Department of Banking (TUB).

Three of these agencies, the OCC, the FDIC, and the TDB, use teams of bank examiners to conduct on-sight examinations of the banking institutions operating in Texas. The varying costs associated with these examinations are the responsibility of the bank under examination. Banks with a National charter will be subject to direct assessments from the OCC, banks with a State charter will be subject to direct assessments from the State Department of Banking, while both types of banks will be subject to direct assessment from the FDIC and the indirect expenses associated with all exams.

The purpose of this study is to make a specific comparison of the costs banks incur as a result of these mandatory on-sight examinations of both National and State chartered Commercial Banks operating in the State of Texas. Information obtained from the regulatory manuals issued by the governing agencies, the billing records of several small banking institutions (less than forty-million in Total Assets), TDB, OCCs FDIC, and current periodicals were compiled to facilitate the study of the direct costs. Key personnel from both banking sectors were consulted in order to identify the indirect costs that banks will incur during these examinations.
OVERVIEW

National Banks

National banks are subject to an annual exam by both the OCC and FDIC. However, the FDIC will generally accept the results of the OCC exam and waive their right to examine these banks.

The direct costs associated with the OCC exam consist of a semi-annual assessment fee based on the total assets owned by each bank and semi-annual assessment fees by the FDIC based on the deposit base structure.

The following indirect costs can also be associated with the OCC exam: time spent by Bank Management, and Bank Employees; preparatory consulting expenses; hard paper copy costs; telephone and facsimile expenses; and use of bank facilities by the examination team.

State Banks

Both the TDB and the FDIC will perform annual examinations of State Banking organizations. The direct costs associated with each of these exams include yearly assessments from the TDB based on the total assets owned, plus an examination fee, and a yearly assessment from the FDIC based on the deposit base structure.

Indirect costs associated with TDB exams will be the same as those indirect costs incurred of National Banks, however, by undergoing exams from both the TDB and the FDIC, all indirect costs will be incurred two times each year.

General

Hourly fees are charged by the OCC ($101 /Hr.), and daily fees ($500/Day) are charged by the FDIC, in order to recoup the costs incurred by special examinations required to monitor the fiduciary activities of banks such as trust departments, trust companies, electronic data processing, and charter conversions. Because the application of these examinations is only required on a case
by case scenario and can not be generally applied to all banks, these specialty examinations will be
considered the exception rather than the rule, and for the purpose of this study, their fees will be
ignored.

COSTS OF EXAMINING NATIONAL BANKS

Direct Costs

National Banks must pay semiannual assessments to the Comptroller of Currency based on
the amount of total assets owned. The amount of the assessment paid by each bank is computed
using the formula described in Table 1 which includes the actual figures from an recent assessment
billing.

The OCC printed regulations with regard to Nationally Charter Banks and Table 1 state:
Every national bank falls into one of ten assets-size bracket denoted by Columns A and B. The
lower (Column A) and upper (Column B) endpoints of each bracket will be indexed each
year to reflect changes in the Gross National Product (GNP) implicit price deflator. The
percent change in the level of prices, as measured by the deflator, will be calculated for
each June to June period and used to revise the bracket endpoints. The bracket endpoints
will be rounded to the nearest $5 million (with the exception of the smallest-size bracket,
which will be rounded to the nearest $100 thousand.

A bank's semiannual assessment is composed of two parts. The first portion is an
assessment of the bank up to the lower endpoint (Column A) of the bracket in which it
falls; this portion of the assessment is in Column C. The second portion is an assessment
on the remaining assets of the bank, which are assessed at the rate shown in Column D.
This rate is applied only to those assets in excess of the lower endpoint bracket. The total
semiannual assessment is the sum of the bank's assets in excess of Column E times the rate
in Column D. plus the amount in Column C.
Table 1.

If the bank’s total assets [consolidated domestic and foreign subsidiaries] are:

<table>
<thead>
<tr>
<th>Over-Column A Million</th>
<th>But not over-Column B Million</th>
<th>This amount Column C</th>
<th>Plus Column D</th>
<th>Of excess over Column E Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>$ 2</td>
<td>0</td>
<td>.001688421</td>
<td>0</td>
</tr>
<tr>
<td>$ 2</td>
<td>20</td>
<td>$ 3,377</td>
<td>.000211053</td>
<td>$ 2</td>
</tr>
<tr>
<td>20</td>
<td>100</td>
<td>7,176</td>
<td>.000168842</td>
<td>20</td>
</tr>
<tr>
<td>100</td>
<td>200</td>
<td>20,683</td>
<td>.000109747</td>
<td>100</td>
</tr>
<tr>
<td>200</td>
<td>1,000</td>
<td>31,658</td>
<td>.000092683</td>
<td>200</td>
</tr>
<tr>
<td>1,000</td>
<td>2,000</td>
<td>105,948</td>
<td>.000075979</td>
<td>1,000</td>
</tr>
<tr>
<td>2,000</td>
<td>6,000</td>
<td>181,927</td>
<td>.000067537</td>
<td>2,000</td>
</tr>
<tr>
<td>6,000</td>
<td>20,000</td>
<td>452,075</td>
<td>.000057465</td>
<td>6,000</td>
</tr>
<tr>
<td>20,000</td>
<td>40,000</td>
<td>1,256,585</td>
<td>.000054060</td>
<td>20,000</td>
</tr>
<tr>
<td>40,000</td>
<td></td>
<td>2,337,785</td>
<td>.000035398</td>
<td>40,000</td>
</tr>
</tbody>
</table>

Each semiannual assessment is based upon the total assets shown in the bank’s most recent "Consolidated Report of Condition (Including Domestic and Foreign Subsidiaries).

Indirect Costs

Along with the direct billings from the governing agencies, banker examinations also burden banking institutions with costs that are inherently associated with the examination process. These costs will be identified as indirect costs of examination.

National banks undergo an annual exam from the OCC and incur the indirect costs associated with this exam. The OCC and FDIC regulators have jointly agreed to accept the other's examination reports, therefore national banks, in general, are not subject to a second exam from the FDIC.

While indirect costs of any form are difficult to identify to any degree of accuracy, some general assumptions can be made about them that will allow for an accurate comparison. Consultation with key banking personnel involved with the examination process provided the basis for the following assumptions:

1) Average managerial time costs are $30 per hour.

2) Bank management will spend approximately 180 hours for exam related activities, per exam.
3) Average employee time costs are $10 per hour.

4) Bank employees, other than management, will spend approximately 100 hours for exam related activities, per exam.

5) Average consulting fees are $2,500 per consultation.

6) Banks will generally utilize one consulting agency for the specific purpose of providing feedback on examination related activities, per exam.

7) Average copy costs are $150 per examination.

8) Average telephone and facsimile costs are $100 per examination.

9) Average facility costs are $250 per examination.

10) Other miscellaneous costs of $100 will be incurred as a result of examinations.

COSTS OF EXAMINING STATE BANKS

Direct Costs

The Texas Department of Banking assesses an annual fee that is billed quarterly to all State Banking organizations that, like national banks, is based upon the total assets owned by each bank. Table 2 outlines the computation applied by the TDB based on actual figures of Schedule 1 of a letter addressed to Chief Executive Officers of State Banks dated July 9, 1993. The TDB also charges a statutory $50 examination fee at the time of examination.

Table 2.

<table>
<thead>
<tr>
<th>On and Off Book Assets</th>
<th>Base Amount</th>
<th>Plus Rate</th>
<th>Of Excess Over</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;$ 10 Million</td>
<td>$ 1,000</td>
<td>0.000610668</td>
<td>$0</td>
</tr>
<tr>
<td>$10-$25 Million</td>
<td>$ 7,107</td>
<td>0.000285323</td>
<td>$10 Million</td>
</tr>
<tr>
<td>$25 - $40 Million</td>
<td>$ 11,387</td>
<td>0.000129468</td>
<td>$25 Million</td>
</tr>
<tr>
<td>$40- $70 Million</td>
<td>$ 13,329</td>
<td>0.000127916</td>
<td>$40 Million</td>
</tr>
<tr>
<td>$70 - $100 Million</td>
<td>$ 17,166</td>
<td>0.000121225</td>
<td>$70 Million</td>
</tr>
<tr>
<td>$100- $250 Million</td>
<td>$ 20,803</td>
<td>0.000075111</td>
<td>$100 Million</td>
</tr>
<tr>
<td>$250 Million - $1 Billion</td>
<td>$ 32,069</td>
<td>0.000047745</td>
<td>$250 Million</td>
</tr>
<tr>
<td>&gt;$1 Billion</td>
<td>$ 67,878</td>
<td>0.000047179</td>
<td>$1 Billion</td>
</tr>
</tbody>
</table>
Indirect Costs

All types of examinations, in general, result in the same indirect cost regardless of the origin of a bank's charter. State banks will therefore experience the same indirect costs of examination identified for National banks with one exception. The governing agencies within the Federal Government accept the findings and results of other federal agencies, but because of the disparity in the rules and regulations among the States, they do not accept the same for state agencies. Where the FDIC will accept the results of examinations by the OCC, they will not accept the results of examinations by the TDB. Thus, state banks will be subject to examination by both the TDB and the FDIC and incur indirect costs for each exam.

Indistinguishable State and National banking institutions will also be burdened by an additional cost that is relative to examinations. Both banking institutions are responsible for paying an assessment to the FDIC for deposit insurance and examination activities related to the insurance coverage. Semi-annual assessments are made to all institutions based on an FDIC determined rate that is calculated in accordance with the appropriate risk associated with different banking institutions. This rate is then multiplied by semi-annual average deposit base per $100 of deposits and billed semi-annually. (See Appendix A for a sample deposit base calculation.)

The FDIC implemented a risk-related premium system (RAPS) for all financial institutions effective July 1, 1993. Under the RRPS, each insured institution is assigned to one of three capital groups and to one of three supervisory subgroups for purposes of determining an assessment rate. Capital group assignments for the assessment period will be based on Reports of Income and Condition using the most recent quarter-end date practical for consideration of supervisory subgroup assignments in order to utilize the most current and up-to-date information available.

Supervisory subgroups assignments are to be made by the FDIC each assessment period for each Bank Insurance Fund (BIF) or Savings Association Insurance Fund (SAIF) insured institution. According to the FDIC three supervisory subgroups will be assigned as follows:

"Subgroup A," which generally corresponds to the primary federal regulator's composite rating of 1 or 2, consists of financially sound institutions with only a few minor
weaknesses.

"Subgroup B." which generally corresponds to the primary federal regulator's composite rating of 3, consists of institutions that demonstrate weaknesses which, if not corrected, could result in significant deterioration of the institution and increased risk of loss to the BIF and SAIF.

"Subgroup C." which generally corresponds to the primary federal regulator's composite rating of 4 or 5, consists of institutions that pose a substantial probability of loss to the BIF or SAIF unless effective corrective action is taken.15

The supervisory subgroup assignment made by the FDIC will be based on a variety of factors, including:

FDIC review of the results of the last examination finalized and transmitted to an institution prior to the cut-off date by the primary regulator.

Review of other written findings that result in a composite rating change by the regulator.

Review of the results of independent, joint or concurrent FDIC examinations finalized prior to the cut-off date.

Time elapsed since the last examination.

Results of off-site statistical analysis of reported financial statements.

Analysis of other pertinent information.'

Supervisory subgroup assignments of institutions are to be developed by the FDIC based on information available on a specified date prior to each assessment period. An important factor in this assignment is the composite rating assigned by the primary federal regulator.

Capital Group assignments are made according to a detailed method agreed upon by the Federal Financial Institutions Examination Council (FFIEC) Surveillance Task Force in regards to calculating capital ratios for RRPS purposes. The method utilizes data reported in an institution's Report of Income and Condition (Call Report), or Thrift Financial Report, for the report date closest to the last day of the seventh month preceding the current semiannual period. Changes in capital ratios occurring after that cut-off date will be factored into capital group assignments for the
next assessment period. Changes in capital group assignments for any assessment period resulting from amendments to Call Reports or Thrift Financial Reports are effected after appropriately filed amendments have been both properly edited and analyzed.

The method used in assigning institutions to capital groups was also addressed in the same letter. In specifically stated:

Each institution is evaluated through a series of tests. Ratios used in the test are converted to percent values, which are calculated to four decimal places and rounded to two. The tests are as follows:

IF (1) Total Risk Based Capital is greater than or equal to 10.00% AND
(2) Tier 1 Risk Based Capital is greater than or equal to 6.00% AND
(3) Leverage is greater than or equal to 5.00%
THEN Well Capitalized. ASSIGNMENT: Capital Group 1.

IF (1) Not Well Capitalized AND
(2) Total Risk Based Capital is greater than or equal to 8.00% AND
(3) Tier 1 Risk Based Capital is greater than or equal to 4.00% AND
(4) Leverage is greater than or equal to 4.00%
THEN Adequately Capitalized. ASSIGNMENT: Capital Group 2.

IF Not Well Capitalized or Adequately Capitalized
THEN Undercapitalized. ASSIGNMENT: Capital Group 3.

Risk weighted assets are calculated as follows:

Zero Percent Risk Weight

Assets recorded on the balance sheet:

Securities issued by, other claims on, and claims unconditionally guaranteed by, the U.S. Government and its agencies and other OECD central governments
All other

Credit equivalent amount of off-balance sheet items
20 Percent Risk Weight
Assets recorded on the balance sheet
Claims conditionally guaranteed by the U.S. Government and its agencies
and other OECD central governments
Claims collateralized by securities issued by the U.S. Government and its
agencies and other OECD central governments; by securities issued by U.S.
Government sponsored agencies; and by cash deposit
All other
Credit equivalent amount of off-balance sheet items

50 Percent Risk Weight
Assets recorded on the balance sheet
Credit equivalent amount of off-balance sheet items

100 Percent Risk Weight
Assets recorded on the balance sheet
Credit equivalent amount of off-balance sheet items

Risk Weighted Assets
(ZERO PERCENT RISK WEIGHT x 0%) + (20 PERCENT RISK
WEIGHT x 20%) + (50 PERCENT RISK WEIGHT x 50%) + (100
PERCENT RISK WEIGHT x 100%) = RISK WEIGHTED ASSETS

Capital components for all institutions filing FFIEC 031 to 034 forms are as follows:

**Tier 1 Capital**
**Tier 1 Capital Elements**
Common stock +
Surplus +
Undivided profits (less: net unrealized loss on marketable equity securities )+
Cumulative foreign currency exchange translation adjustments +
Noncumulative perpetual preferred +
Minority interest in consolidated subsidiaries -
Net worth certificates (Savings banks only)

**Qualifying Intangibles**
The lessor of:
Mortgage service rights +
Qualifying purchased credit card relationships
The lessor of:
Purchased credit card relationships or
25 percent of:
Tier 1 capital elements -
Other identifiable intangible assets -
Goodwill

OR

50 percent of:
Tier 1 capital elements -
Other identifiable intangible assets -
Goodwill

Disallowed Intangibles
Total intangible assets - qualifying intangibles
Tier 1 capital
Tier 1 capital elements - disallowed intangibles

Gross Risk Weighted Assets
Risk weighted assets - disallowed intangibles - reciprocal interbank holdings of capital.

Tier 2 Capital

Limited Subordinated Debt and Intermediate Term Preferred Stock

The Lessor of:

(One year or less x 0%) + (One year to two years x 20%) + (Two years to three years x 40%) + (Three years to four years x 60%) + (Four years to five years x 80%) + (Over five years x 100%)

OR

Tier 1 capital x 50%

Other Limited Life Capital Instruments

(One year or less x 0%) + (One year to two years x 20%) + (Two years to three years x 40%) + (Three years to four years x 60%) + (Four years to five years x 80%) + (Over five years x 100%)

Limited Allowance for Loan and Lease Losses

The lessor of:

Allowance for loan and lease losses

OR

Gross risk weighted assets x 1.25%

Tier 2 Capital

The Lessor of:

Limited subordinated debt and intermediate term preferred stock
Other limited life capital instruments
Limited allowance for loan and lease losses
Cumulative perpetual preferred stock and related surplus:
Perpetual preferred stock and related surplus -
Noncumulative perpetual preferred stock and related surplus
Total mandatory convertible debt
Losses deferred pursuant to 12 U.S.C. 1823 (j)
Net worth certificates (savings banks only)
OR
Tier 1 capital

**Total Risk Based Capital**

Tier 1 capital +
Tier 2 capital -
Reciprocal interbank holdings of capital

**Total Risk Weighted Assets**

Gross risk weighted assets -
Allocated transfer reserve -
Allowance for loan and lease losses +
Limited allowance for loan and lease losses

RRPS capital ratios for all institutions filing FFIEC 031 to 034 forms are calculated as follows:

**Total Risk Based Capital Ratio**

\[
\frac{100 \times \text{Total risk based capital}}{\text{total risk weighted assets}}
\]

**Tier 1 Risk Based Capital**

\[
\frac{100 \times \text{Tier 1 capital}}{\text{total risk weighted assets}}
\]

**Leverage Ratio**

\[
\frac{100 \times \text{Tier 1 capital}}{\text{average total assets} - \text{disallowed intangibles}}
\]

The FDIC assessment rate schedule as of May 26, 1993 is outlined in Table 3.

**Table 3.**

<table>
<thead>
<tr>
<th>Capital</th>
<th>Supervisory</th>
<th>Subgroup</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group</td>
<td>A</td>
<td>B</td>
</tr>
<tr>
<td>1. Well Capitalized</td>
<td>23</td>
<td>26</td>
</tr>
<tr>
<td>2. Adequately Capitalized</td>
<td>26</td>
<td>29</td>
</tr>
<tr>
<td>3. Undercapitalized</td>
<td>29</td>
<td>30</td>
</tr>
</tbody>
</table>

**COMPARISON OF SIMILAR INSTITUTIONS**

Based on these complex direct and indirect costs, a comparison of similar national and state banks will enhance the usefulness of this study. Two different size banks will be compared to help
### RT I - SCHEDULE OF ELIMINATIONS FROM GROSS DEPOSITS

<table>
<thead>
<tr>
<th>From Report of Condition Dated March 31, 1993</th>
<th>Column 1</th>
<th>Column 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Unposted Debits (Items 1a or Schedule RC-0 or Items 1b(1) and 1b(2) of Schedule RC-0)</td>
<td>0 000</td>
<td>0 000</td>
</tr>
<tr>
<td>B. Pass Through Reserve Balances (Items 6a and 6b of Schedule RC-0)</td>
<td>0 000</td>
<td>0 000</td>
</tr>
<tr>
<td>C. Unamortized Premium (Item 7a of Schedule RC-0)</td>
<td>0 000</td>
<td>0 000</td>
</tr>
</tbody>
</table>

### RT I - COMPUTATION OF ASSESSMENT

<table>
<thead>
<tr>
<th>From Report of Condition Dated March 31, 1993</th>
<th>Column 1</th>
<th>Column 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Total Demand Deposits (Items 4a of Schedule RC-E, Memoranda)</td>
<td>6,674 000</td>
<td>28,612 000</td>
</tr>
<tr>
<td>B. Total Time &amp; Savings Deposits (Items 4b of Schedule RC-E, Memoranda)</td>
<td>0 000</td>
<td>0 000</td>
</tr>
<tr>
<td>C. Interest Accrued and Unpaid (Item 1a of Schedule RC-6)</td>
<td>0 000</td>
<td>0 000</td>
</tr>
<tr>
<td>D. Unposted Credits (Item 2a of Schedule RC-0 or Items 2b(1) and 2b(2) of Schedule RC-0)</td>
<td>0 000</td>
<td>0 000</td>
</tr>
<tr>
<td>E. Uninvested Trust Funds (Item 5 of Schedule RC-0)</td>
<td>0 000</td>
<td>0 000</td>
</tr>
<tr>
<td>F. Deposits of Subsidiaries (Items 9a and 9b of Schedule RC-5)</td>
<td>0 000</td>
<td>0 000</td>
</tr>
<tr>
<td>G. Interest Accrued, Subsidiaries (Item 4c of Schedule RC-0)</td>
<td>0 000</td>
<td>0 000</td>
</tr>
<tr>
<td>H. Deposits in Branches (Schedule RC-0)**</td>
<td>N/A 000</td>
<td>N/A 000</td>
</tr>
<tr>
<td>I. Interest Accrued, Branches (Schedule RC-0)**</td>
<td>N/A 000</td>
<td>N/A 000</td>
</tr>
<tr>
<td>J. Unamortized Discount (Item 1a of Schedule RC-0)</td>
<td>0 000</td>
<td>0 000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>From Report of Condition Dated June 30, 1993</th>
<th>Column 1</th>
<th>Column 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>L. Total Demand Deposits (Item 4a of Schedule RC-E, Memoranda)</td>
<td>7,275 000</td>
<td>27,919 000</td>
</tr>
<tr>
<td>S. Total Time &amp; Savings Deposits (Item 4b of Schedule RC-E, Memoranda)</td>
<td>0 000</td>
<td>0 000</td>
</tr>
<tr>
<td>C. Interest Accrued and Unpaid (Item 1a of Schedule RC-6)</td>
<td>0 000</td>
<td>0 000</td>
</tr>
<tr>
<td>D. Unposted Credits (Item 2a of Schedule RC-0 or Items 2b(1) and 2b(2) of Schedule RC-0)</td>
<td>0 000</td>
<td>0 000</td>
</tr>
<tr>
<td>E. Uninvested Trust Funds (Item 5 of Schedule RC-0)</td>
<td>0 000</td>
<td>0 000</td>
</tr>
<tr>
<td>F. Deposits of Subsidiaries (Items 9a and 9b of Schedule RC-5)</td>
<td>0 000</td>
<td>0 000</td>
</tr>
<tr>
<td>G. Interest Accrued, Subsidiaries (Item 4c of Schedule RC-0)</td>
<td>0 000</td>
<td>0 000</td>
</tr>
<tr>
<td>H. Deposits in Branches (Schedule RC-0)**</td>
<td>N/A 000</td>
<td>N/A 000</td>
</tr>
<tr>
<td>I. Interest Accrued, Branches (Schedule RC-0)**</td>
<td>N/A 000</td>
<td>N/A 000</td>
</tr>
<tr>
<td>J. Unamortized Discount (Item 1a of Schedule RC-0)</td>
<td>0 000</td>
<td>0 000</td>
</tr>
</tbody>
</table>

#### Notes
- **Less Eliminations from Gross Deposits (Each Part; Line 1)**
- **Partial Adjusted Deposits (Line 1 Less Line 7)**
- **Net Adjusted Deposits:**
<table>
<thead>
<tr>
<th>ART II - COMPUTATION OF ASSESSMENT (CONTINUED)</th>
</tr>
</thead>
<tbody>
<tr>
<td>COLUMN 1</td>
</tr>
<tr>
<td>Demand Deposits:</td>
</tr>
<tr>
<td>Bi: Mil Thr Hor:</td>
</tr>
<tr>
<td>13,349,000</td>
</tr>
<tr>
<td>Time and Savings Deposits:</td>
</tr>
<tr>
<td>Bi: Mil Thr Hor:</td>
</tr>
<tr>
<td>59,685,000</td>
</tr>
<tr>
<td>Column 2</td>
</tr>
<tr>
<td>Adjusted Demand Deposits LESS 16 2/3% deduction (MULTIPLY COLUMN 1 BY 0.8333; ROUND TO NEAREST DOLLAR):</td>
</tr>
<tr>
<td>11,625,701</td>
</tr>
<tr>
<td>Adjusted Time &amp; Savings Deposits LESS 14 deduction (MULTIPLY COLUMN 1 BY 0.859; ROUND TO NEAREST DOLLAR):</td>
</tr>
<tr>
<td>54,116,370</td>
</tr>
<tr>
<td>Total Adjusted Deposits (ADD COLUMN 1 AND COLUMN 2):</td>
</tr>
<tr>
<td>65,740,071</td>
</tr>
<tr>
<td>Average Assessment Base (DIVIDE COLUMN 2 BY 2; ROUND TO THE NEAREST DOLLAR):</td>
</tr>
<tr>
<td>32,870,035</td>
</tr>
<tr>
<td>Assessment for six months ending December 31, 1985, due by July 31, 1985:</td>
</tr>
<tr>
<td>(MULTIPLY COLUMN 2 BY 0.00165; ROUND TO NEAREST CENT):</td>
</tr>
<tr>
<td>47,661.55</td>
</tr>
<tr>
<td>LESS approved credits due:</td>
</tr>
<tr>
<td>0.00</td>
</tr>
<tr>
<td>TOTAL ASSESSMENT DUE on BIF Deposits (LINE 14 LESS LINE 15) (ENCLOSE REMITTANCE):</td>
</tr>
<tr>
<td>47,661.55</td>
</tr>
</tbody>
</table>

DECLARATION

HE undersigned hereby declares that he/she is a duly authorized official of the above institution, that he/she has examined this statement and that to the best of his/her knowledge and belief, such statement (including attachments, if any) is true, correct and complete, and in accordance with the Federal Deposit Insurance Act and the regulations issued thereunder.

Name and Title of Officer

Signature of Officer

Phone No. (include Area Code)

Date Signed

PLEASE MAKE A COPY FOR YOUR FILE AND RETURN THE ORIGINAL

SECTION 5(d)(3) ("OKAR") TRANSACTIONS

"The above bank insurance fund (BIF) member has acquired deposits of a Savings Association Insurance Fund (SAIF) member pursuant to Section 5(d)(3) of the FDI Act, please contact the FDIC at the toll-free number listed on the front of this form.

*** MINIMUM ASSESSMENT

"Under Section 7(a)(2)(A)(ii) of the FDI Act, "The semiannual assessment for each member of a deposit insurance fund shall be at least $1,000." (This includes institutions reporting zero deposits.)

MAILING INSTRUCTIONS

This certified statement with the remittance for the amount due must be mailed directly to our collection agent in Chicago, IL. Return envelope is enclosed. The certified statement and remittance must be mailed to the Federal Deposit Insurance Corporation, Department 2001, Chicago, IL 60675-2001.

BURDEN STATEMENT

Public reporting of this collection of information is estimated to vary from one half hour to two hours per response with an average of one hour per response, including time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to the Executive Secretary, Department of Administration, FDIC, 550 17th Street, N.W., Washington, D.C. 20429, and to the Office of Management and Budget, Paperwork Reduction Project (0440-0027), Washington, D.C. 20503.
Figure 1

Small Bank Comparison ($35 million in total assets)

National Bank

OCC Assessment
Base Assessment (from column C.) $7,176
Excess over base ($15 million) x .000168842 2,533
Semi-annual Assessment 9,709

Annual OCC Assessment $19,418

Annual FDIC Assessment ($30 million x .0029) 87,000

Indirect Exam Costs
Management Related Costs ( $30 x 180hrs.) 5,400
Employee Related Costs ( $10 x 100hrs.) 1,000
Consulting Costs 2,500
Copy/Telephone/Facsimile Costs 250
Facility Costs 250
Miscellaneous Costs 100
Indirect Costs per Exam 9,500
Indirect Costs per Year 9,500

Annual Costs of Examination for Small National Banks $115,918

State Bank

TDB Assessment
Base Assessment $11,387
Required Statutory Fee 50
Excess over base ($10 million) x .000129468 1,295
Annual TDB Assessment $12,732

Annual FDIC Assessment ($30 million x .0029) 87,000

Indirect Exam Costs
Management Related Costs ($30 x 180hrs.) 5,400
Employee Related Costs ($ 10 x 100hrs.) 1,000
Consulting Costs 2,500
Copy/Telephone/Facsimile Costs 250
Facility Costs 250
Miscellaneous Costs 100
Indirect Costs per Exam 9,500
Indirect Costs per Year 19,000

Annual Costs of Examination for Small State Banks $118,732
**Figure 2**

**Large Bank Comparison ($500 million)**

**National Bank**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>OCC Assessment</td>
<td></td>
</tr>
<tr>
<td>Base Assessment (from column C.)</td>
<td>$31,658</td>
</tr>
<tr>
<td>Excess over base ($300 million) x .000092683</td>
<td>27,805</td>
</tr>
<tr>
<td>Semi-annual Assessment</td>
<td>59,463</td>
</tr>
<tr>
<td>Annual OCC Assessment</td>
<td>$ 118,926</td>
</tr>
<tr>
<td>Annual FDIC Assessment ($425 million x .0029)</td>
<td>1,232,500</td>
</tr>
</tbody>
</table>

**Indirect Exam Costs**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management Related Costs ($30 x 180hrs.)</td>
<td>5,400</td>
</tr>
<tr>
<td>Employee Related Costs ($10 x 100hrs.)</td>
<td>1,000</td>
</tr>
<tr>
<td>Consulting Costs</td>
<td>2,500</td>
</tr>
<tr>
<td>Copy/Telephone/Facsimile Costs</td>
<td>250</td>
</tr>
<tr>
<td>Facility Costs</td>
<td>250</td>
</tr>
<tr>
<td>Miscellaneous Costs</td>
<td>100</td>
</tr>
<tr>
<td>Indirect Costs per Exam</td>
<td>9,500</td>
</tr>
<tr>
<td>Indirect Costs per Year</td>
<td>9,500</td>
</tr>
</tbody>
</table>

**Annual Costs of Examination for Large National Banks** $1,360,926

**State Bank**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>TDB Assessment</td>
<td></td>
</tr>
<tr>
<td>Base Assessment</td>
<td>$32,069</td>
</tr>
<tr>
<td>Required Statutory Fee</td>
<td>50</td>
</tr>
<tr>
<td>Excess over base ($10 million) x .000129468</td>
<td>11,936</td>
</tr>
<tr>
<td>Annual TDB Assessment</td>
<td>$44,005</td>
</tr>
<tr>
<td>Annual FDIC Assessment ($425 million x .0029)</td>
<td>1,232,500</td>
</tr>
</tbody>
</table>

**Indirect Exam Costs**

<table>
<thead>
<tr>
<th>Description</th>
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<tbody>
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<td>100</td>
</tr>
<tr>
<td>Indirect Costs per Exam</td>
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</tr>
<tr>
<td>Indirect Costs per Year</td>
<td>9,500</td>
</tr>
</tbody>
</table>

**Annual Costs of Examination for Large State Banks** $1,295,505
identify any strategies that a "small" or "large" bank may wish to employ. In this context, small banks will be assumed to be those banks with total assets of $35 million and large banks will be assumed to be those banks with total assets of $500 million.

For the purposes of comparison and because the costs of examination are directly related to the assets owned and regulatory rating of each bank, three other general assumptions will have to be made. First, as Tables 1, 2 and 3 were developed from actual records of banking institutions and regulatory documentation, the information contained within them will be considered accurate and up to date. Then, as exam ratings directly affect the ratios used in computing the assessments banks will be charged, it will be assumed that the FDIC considers both banks "Adequately Capitalized" and assigns them to the "Capital Group 2" and "Supervisory Subgroup B." Finally, annual average deposit bases of $30 million for the small banks and $425 million for the large banks will be assumed.

These two comparisons are outlined in Figures 1 and 2. The total costs of examining a "small" bank relative to the total assets ranges from 0.33% for the national bank to 0.34% for the State bank, or a difference of approximately $2,800. The total costs of examining a "large" bank relative to the total assets ranges from 0.27% for the national bank to 0.26% for the State bank, or a difference of approximately $65,000.

A larger assessment rate is charged against the excess assets over the base amounts for each asset-size bracket for the small institutions than the large institutions. The burden of indirect examination costs are a larger portion of the annual examination costs for State banks than for National banks as the State banks undergo an examination from both the TDB and the FDIC.

CONCLUSIONS

Are our industries so infected with willfully wrong or evil intentions that they will not continue to operate and serve the best interests of the consumer without rigid guidance? In general, the current regulation of all industries should probably be considered too costly, but the alternative
for the banking industry would probably be even more costly considering the latest "wrongdoings" or "mis-management" in many banks in the U.S.

Any regulatory system charged with the task of governing finances within, arguably, the world's largest economy will never receive 100% approval from all of the parties involved, as someone will always benefit from different regulations more than others. Ours is no different. Any system that generates costs can not successfully operate without some funding source, and the obvious match for this burden that benefits the general public, is the industry itself. While it is intended to ultimately benefit the consumer, under our current system, the exact opposite is likely to happen. Most managers within the banking industry feel as if the cost burden our system places on banks will eventually be passed on to the consumer in one form of cost or another, and will, therefore, costs the consumer even more.

This study has pointed out that the costs associated with banking regulation are abundant and complicated. "Small" banks, intending to remain of relative size for the long term, should find some minor relief from these costs by operating under a National charter while the "large" should seek to escape some of these costs by operating under a State charter. It should be noted, however, that both of these conclusions are subject to an ever-changing regulatory environment and the benefits of operating under today's more cost effective charter may not hold true for the long-term. Considering the relevant potential savings from one form of institution to the other, the benefits of pursuing a specific charter strategy may not outweigh the costs associated with the analysis.

Thus, bank managers of today and tomorrow are charged with the task of properly guiding their institutions against the forces challenging all other business managers, in addition to the costly regulatory environment that smothers it. Future regulation promises to only be more burdensome, complicated, and costly.
REFERENCES


