APPENDIX A

Costs of Selected Regulatory and Legislative Requirements: An Informal Survey

In conjunction with current efforts to reevaluate the benefits and costs of various legislative and regulatory requirements for the banking industry, the FDIC conducted an informal, voluntary survey of a small group of banks it supervises. (A copy of the questionnaire is attached.) Each institution was asked to estimate its total cost — both direct and indirect — of compliance with the requirements contained in the survey. A cross section of institutions was chosen with regard to size and location. Sixty-one banks participated, representing every region of the country. The smallest participant had assets of only $4.6 million at year-end 1994; the largest had $9.2 billion of total assets. Random sampling could not be used with only 61 banks, so the results are representative of only the institutions selected, but not the banking industry generally.

This study differed from others that have been conducted in recent years. For reasons of time and burden on the institutions surveyed the FDIC focused only on specific provisions for regulatory relief generally supported by the FDIC rather than on overall regulatory cost or broad categories of regulation or legislation. Respondents were asked only to report costs associated with specific requirements that would not otherwise be incurred.

Recurring Regulatory Costs

The annual cost estimates for the recurring legislative and regulatory requirements included in the survey are presented in Table 1. The reported costs of compliance for each question varied considerably among institutions; therefore, median values (the midpoint of estimates received) are used to describe the results. This measure was chosen because it is not affected by extremes in either direction.

Table 1
FDIC REGULATORY BURDEN SURVEY
Estimated Recurring Costs Incurred by a Single Bank: Selected Initiatives

Legislative Initiatives	Median Annual Dollar Cost for Reporting Institutions	Cost as Percent of Net Income (Median for Reporting Institutions)
Truth in Lending Act beyond basic interest rate information	$10,000	1.03%
Truth in Savings Act beyond basic interest rate information	5,400	0.67
Savings from consolidation of RESPA/TIL disclosure requirements	5,000	0.38
Right-of-Rescission provision of Truth in Lending Act	2,500	0.20
Accountant attestations on internal controls & regulatory compliance	3,000	0.28
Pass-through insurance disclosures to employee benefit plan depositors	1,250	0.08
Federal Reserve Act reporting of loans to executive officers	550	0.04
Federal Deposit Insurance Act reporting of bank stock collateral	250	0.01
Small business and agricultural credits reporting	500	0.05
HMDA limit raised to $50 million (for applicable institutions only)	3,000	1.46
Total Recurring Regulatory Costs	**$42,394**	**3.35%**

Consumer and Supervisory Issues. Several questions dealt with various aspects of consumer protection requirements. For instance, respondents indicated that the median cost of providing customers with Truth in Lending information over and above disclosure of the basic, annual percentage rate was $10,000 per annum. The comparable figure for Truth in Savings was $5,400. Lower estimated costs were reported for the overlapping information requirements in RESPA and Truth in Lending and for the cost of right of rescission under Truth in Lending. To put these dollar figures in perspective, in no case did the reported cost of any specific regulation exceed 1.1 percent of net income in 1994 for the relevant institutions.

Other questions focused on supervisory issues. For instance, the median cost of obtaining an outside auditor to attest to an institution's assertions regarding its compliance with internal controls, regulations, and legal requirements was reported to be $3,000. No other question regarding supervisory issues yielded median cost estimates that exceeded $1,250.

Reporting Burden. With respect to reporting burden, the cost of providing data on small loans to business and agriculture was less than $500 for half of the respondents. On a per loan reported basis, the median cost was $1.70. A proposal has been offered to increase the cutoff for the Home Mortgage Disclosure Act (HMDA) reporting exemption from an asset level of $10 million to $50 million. Banks in the $10 million to $50 million range estimated that the median cost of collecting, reporting, and making public HMDA data was $3,000 per year (just under 1.5 percent of net income). The responses regarding HMDA costs are presented in Table 2. The median cost per application received was $119.

Table 2
FDIC REGULATORY BURDEN SURVEY
HMDA Costs For Selected Size Categories

Institution Size (Assets)	Median Annual Dollar Cost for Reporting Institutions	Cost as Percent of Net Income (Median for Reporting Institutions)	Special Measures (Median for Reporting Institutions)
$10 to $25 million	$ 2,300	1.19%	$ 97.31 / Application
$10 to $50 million	3,000	1.46	$118.80 / Application
Greater than $50 million (Institutions not affected by current proposals)	22,000	0.25	$ 17.52 / Application

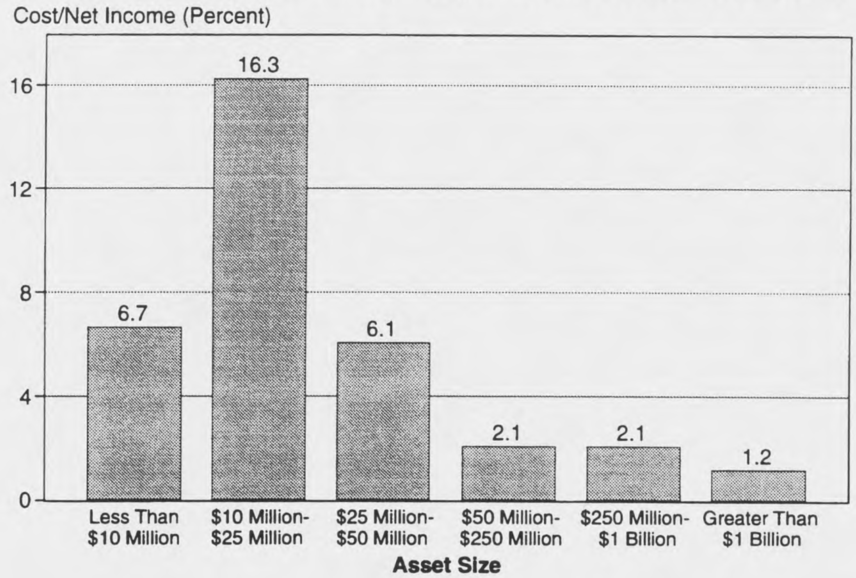
Total Recurring Costs. For all recurring requirements included in the survey, the median annual cost of compliance was reported to be approximately $40,000 per institution (3.35 percent of net income). If those requirements had not been in place, the responses suggest that half the institutions would have seen a pre-tax increase in their return on assets of more than 5 basis points.

Differences by Size of Institution

The FDIC survey confirmed the findings of other studies which have shown that small institutions generally bear a higher proportional regulatory burden than large ones. Smaller institutions reported that a clearly higher proportion of their budgets is devoted to meeting the recurring requirements

FDIC REGULATORY BURDEN SURVEY

Median Recurring Costs for Reporting Institutions: Selected Initiatives



addressed in the survey. Specifically, the proportion of net income devoted to these items ranged from over 16 percent at the smaller institutions to just over one percent at the largest. As may be seen in Table 2, the cost to comply with HMDA requirements was proportionally higher for small institutions than for larger ones.

The Cost of Various Applications/Notifications

Respondents also were asked to estimate the cost of various applications and notifications that they periodically submit to the FDIC (see Table 3). The estimates for these items ranged from a median cost of $500 for a notification of a change in senior management to $20,000 for reporting

Table 3
FDIC REGULATORY BURDEN SURVEY
Estimated Costs: Selected Applications/Notifications

Legislative Initiatives	Number of Institutions Responding to Question	Median Annual Dollar Cost for Reporting Institutions	Cost as Percent of Net Income (Median for Reporting Institutions)
Establishment or relocation of a branch	40	$5,000	0.15%
Change in senior executive officer or Board of Directors	39	500	0.04
Exercise of trust powers	14	1,000	0.02
"Phantom" merger or corporate reorganization	15	20,000	0.23
FDIC permission to conduct activities not allowed national banks	13	2,500	0.07

major corporate reorganizations. These estimates were based on a subset of the institutions queried, as not all participants had experience in all types of actions.

Overall Costs

Because the survey was informal and voluntary, it could not employ a statistically-representative sample of institutions. Thus, it is not possible to provide statistically-based industry-wide estimates of the potential cost savings from the elimination of the requirements in question. However, to approximate the larger scale of savings for all FDIC-supervised institutions, the figures from the participating banks were generalized to all such institutions. (All FDIC-supervised institutions to which that requirement was applicable were assigned the same proportional costs as those responding to the survey.) For applications and notifications, the overall cost was obtained by multiplying the actual number of filings with the FDIC in 1994, times the estimated per unit cost. Because of the variability of the estimates received, a range of costs was developed based on the median and mean answers in each category.

Using the median cost estimate for each category, the total compliance costs for all questions in the survey for FDIC-insured institutions would sum to approximately $500 million in 1994. Because several institutions reported unusually high estimates of costs for each question, the mean estimate was always higher than the median for each question. Using the mean estimates as a basis for aggregating, the total cost of compliance for those selected requirements for all FDIC-supervised institutions was slightly more than $1 billion. Therefore, the range of costs for compliance of FDIC-supervised institutions can be credibly set at $500 million to $1 billion. These figures compare to total net income of all FDIC-supervised institutions for 1994 of $12.6 billion.

Results Relative to Other Surveys

In recent years two other surveys of banking institutions were undertaken regarding the costs of regulations. These surveys covered a much broader range of regulations than did the FDIC survey. In 1991, the American Bankers Association (ABA) asked a sample of their members about the "cost of regulation" in general; their industry-wide estimate based on the survey answers was $10.7 billion. The Independent Bankers Association of America (IBAA), which surveyed its community banks in 1992 on 13 broad regulations, estimated that compliance costs for all such institutions were $3.2 billion.

Because the questions asked by the FDIC were much narrower and more specific than those contained in the two earlier surveys, our cost estimates are proportionately lower. Moreover, the cost estimates involved a much different set of institutions. Each estimate of total cost was related to total assets of the relevant population of banking institutions to facilitate comparison of the various results. After that adjustment, the estimates from the FDIC survey ranged from 15 to 30 percent of the industry-wide ABA figure of total compliance costs and from 10 to 20 percent of the IBAA figure for all community banks. This was probably a reasonable result given the more limited scope of the FDIC survey.

SURVEY QUESTIONS ON REGULATORY BURDEN

1. What is the overall, estimated annual cost to your institution of Home Mortgage Disclosure Act (HMDA) data collection, review, and reporting, including the cost of making the results available to the public?

   $ ______________

2. What is the overall, estimated annual cost of all other disclosures required by the Truth In Lending Act beyond the disclosure of the basic, annual percentage rate?

   $ ______________

3. What is the:

   a. Percentage of home loans and lines of credit subject to rescission under the Truth In Lending Act that has been rescinded at your institution in recent years?

      ______ %

   b. Overall, estimated annual cost of compliance with the right-of-rescission provision of the Truth In Lending Act?

      $ ______________

4. What is the amount of estimated, annual savings which could be attained from the coordination and/or consolidation (i.e., elimination of overlaps as well as of differences in definitions and coverage) of disclosure requirements of the RESPA and the Truth in Lending Act?

   $ ______________

5. What is the overall, estimated annual cost of providing customers with the disclosures required by the Truth in Savings Act, over and above those revealing the rate and method used to calculate interest?

$ _______________

6. You currently are required to report data on various types and size categories of small business and agricultural credits on the June call report. What is the overall, estimated annual cost of having to comply with this reporting requirement?

$ _______________

Note: Banks are required to report on Part II of Schedule RC-C of the June call both the number, and amount outstanding, of business loans with original amounts of $1 million or less and of outstanding farm loans with original amounts of $500,000 or less. Included are loans secured by nonfarm, nonresidential properties, commercial and industrial loans, loans secured by farm land, and other loans to farmers.

7. What is the anticipated cost of providing required disclosures to employee benefit plan administrators regarding the availability of pass-through deposit insurance coverage on employee benefit plan deposits (effective July, 1995 as outlined in FIL-14-95)?

a. Initial cost $ _______________

b. On-going cost $ _______________

8. Section 36 of the FDI Act requires attestation by an institution's independent public accountant to management's assertions regarding internal controls and compliance with FDIC regulations and federal laws. What is the overall, estimated annual cost of compliance with this requirement?

$ _______________

Note: Section 36 (c) of the FDI Act requires an institution's independent public accountant to attest to, and report separately on, the assertions of the institution's management contained in any internal control report required by Section 36(b)(2) of the Act. Section 36(e) of the FDI Act requires the institution's independent public accountant to apply procedures agreed upon by the FDIC to objectively determine the extent of compliance of the institution with laws and regulations designated by the FDIC.

9. Proposals have been made regarding the streamlining of notice and application processes. What is the overall, estimated cost of preparation and submission of an application or notice for:

   a. Establishment/relocation of a branch?

      $ ______________

   b. Change in senior executive officer/board of directors (pursuant to Section 32 of the FDI Act)?

      $ ______________

   c. Exercise of trust powers?

      $ ______________

   d. "Phantom" merger/corporate reorganization?

      $ ______________

   e. An application to conduct activities not permissible for national banks (pursuant to Section 24 of the FDI Act)?

      $ ______________

10. What is the estimated, <u>annual</u> cost to your institution of maintaining and reporting data required by Section 22 (g) of the Federal Reserve Act regarding loans to executive officers--both from outside sources and from your institution?

    $ ______________

Note: Section 22(g)(6) of the Federal Reserve Act requires executive officers to report to their Board of Directors, detailing the extensions of credit from another institution whenever the aggregate amount of those extensions exceed the permissible limits from their own institution. Section 22(g)(6) is made applicable to insured nonmember banks through Section 18(j) of the FDI Act. Section 22(g)(9) of the Federal Reserve Act requires that each institution include with its call report data on all loans to executive officers since the filing of the previous call report made pursuant to Section 22(g).

11. Section 7(j)9 of the FDI Act requires reporting of credit extensions secured by 25 percent or more of any class of stock of an insured depository institution. What is the overall, estimated annual cost of this reporting requirement?

$ ______________

Note: Section 7(j)9 of the FDI Act requires any financial institution and any affiliate that has credit outstanding which is secured directly or indirectly by 25 percent or more of any class of shares of another insured depository institution to file a report with its federal banking agency. A copy also is required to be filed with the appropriate federal banking agency of the institution whose stock secures such extensions of credit.

12. Are there any other areas of banking law or regulation which you feel are particularly costly to your institution that you feel should be eliminated?

Regulation ______________________________

Estimated annual cost $ ______________

Regulation ______________________________

Estimated annual cost $ ______________