Office of Comptroller of the Currency

Mission Statement

To charter national banks, to oversee a nationwide system of banking institutions, and to assure that national banks are safe and sound, competitive and profitable, and capable of serving in the best possible manner the banking needs of their customers.

Program Summary by Account

Dollars in Thousands

	FY 2006	FY 2007	FY 2008		
	Obligated	Estimated	Estimated	$ Change	% Change
Supervise	$471,882	$569,137	$597,600	$28,463	5.00%
Regulate	70,992	81,508	87,000	5,492	6.74%
Charter	13,952	20,544	21,200	656	3.19%
Total Resources	**$556,826**	**$671,189**	**$705,800**	**$34,611**	**5.16%**
Capital Investments (Included in Total Resources above)	$6,360	$7,389	$6,137	($1,252)	(16.9%)

FY 2007 Priorities

- Regulate and supervise approximately 1,830 institutions with national bank charters and 49 federal branches of foreign banks with total assets of approximately $6.5 trillion;
- Conduct examinations based on the risk profile of individual national banks to ensure they are safe and sound, sufficiently capitalized, and comply with consumer protection laws and regulations;
- Address potential adverse changes in national bank asset quality and risk profiles;
- Fill key experienced and specialty examiner and bank supervision policy analyst positions; enhance retention of entry-level examiners at the critical three/four year point of their careers; develop the next generation of bank supervision leadership;
- Work with other federal banking regulators on proposed revisions to the banking agencies' risk-based capital standards (often referred to as the Basel II and Basel IA proposals);
- Combat fraud and money laundering and protect the integrity of the financial system through national banks' compliance with the Bank Secrecy Act, anti-money laundering, and USA PATRIOT Act laws and regulations;
- Address sound underwriting, risk management systems, and consumer issues presented in connection with retail banking products offered by national banks; and
- Continue to support and defend the attributes and benefits of the national bank charter.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The Office of the Comptroller of the Currency (OCC) was created by Congress to charter national banks, to oversee a nationwide system of banking institutions, and to assure that national banks are safe and sound, competitive and profitable, and capable of serving in the best possible manner the banking needs of their customers.

The OCC supervises approximately 1,830 institutions with national bank charters and 49 federal branches of foreign banks in the United States (U.S.). Total assets under OCC supervision are nearly $6.5 trillion or 67 percent of total U.S. commercial banking assets. The average size and complexity of the institutions in the national banking system continue to grow, creating increasing and diverse challenges for the OCC.

The OCC has its headquarters in Washington, DC, and operates four district offices in Chicago, Dallas, Denver, and New York, and field and satellite offices throughout the U.S. Resident examiner teams are located in the largest banking companies, and there is an examining office in London, England.

The OCC's operations are funded primarily (more than 96 percent) from semiannual assessments levied on national banks. Revenue from investments in U.S. Treasury securities and licensing and other fees comprises the remaining three percent of the OCC's funding. The OCC does not receive congressional appropriations to fund any portion of its operations.

As the regulator of national banks, the OCC has established four strategic goals that help to support a strong economy for the American public: 1) a safe and sound national banking system, 2) fair access to financial services and fair treatment of bank customers, 3) a flexible legal and regulatory framework that enables the national banking system to provide a full competitive array of financial services, and 4) an expert, highly motivated, and diverse workforce that makes effective use of OCC resources. The OCC organizes its activities under three programs: Supervise, Regulate, and Charter, to achieve the goals and objectives outlined in its strategic plan.

The OCC's FY 2007 priorities include supervisory issues related to potential adverse changes in national bank asset quality and risk profiles, continued work on proposed revisions to the federal banking agencies' risk-based capital standards, compliance with Bank Secrecy Act/anti-money laundering (BSA/AML) and USA PATRIOT Act (USAPA) requirements, and addressing issues raised by the range of retail banking products offered by national banks. Critical issues concerning national bank powers and preemption of state laws will continue to be significant for the agency and the industry. Filling key experienced and specialty examiner and bank supervision policy analyst positions, enhancing retention of entry-level examiners at the critical three/four year point of their careers, and developing the next generation of bank supervision leadership are also critical initiatives for the OCC.

1B – Program History and Future Outlook

Demands on OCC resources, especially those created by large, highly complex national banks, require that OCC set priorities that maximize the efficient use and allocation of those resources. OCC bank supervision needs to be flexible and proactive in nature to adapt to changing priorities and unexpected supervisory issues. Uncertainties in the financial and commodities markets and in the global political landscape are likely to continue and may result in a more volatile operating environment for the banking industry. Risks facing the banking industry and the OCC are increasingly interdependent, cutting across traditional disciplines and business lines. Operational and compliance risks are becoming more prominent; traditional distinctions between credit and capital markets activities are eroding. Corporate governance, accounting, compliance, and customer information security continue to be high visibility issues for the banking industry. The rapid pace of financial innovation and growing concentrations, both within bank's portfolios and across industry segments, pose additional challenges and require improved risk management and information systems. Quantitative risk measurement systems will continue to become more prominent in banks' risk management processes. The following are highlights of OCC FY 2006 accomplishments and specific FY 2007 challenges.

Supervisory Activities

The OCC continously supervises banks in its community bank, midsize and credit card bank, and large bank programs. A supervisory strategy is developed based on each banking institution's risk profile and condition. The strategy includes a variety of supervisory activities, including examinations and off-site analyses, to be completed during a supervisory cycle. Examination activities focus on safety and soundness, consumer compliance, BSA/AML/USAPA, fair lending, asset management, bank information technology, and the Community Reinvestment Act (CRA).

Areas of emphasis during the OCC's FY 2006 supervisory strategies included compliance with the BSA/AML (as discussed more fully below), follow up on Home Mortgage Disclosure Act (HMDA) data, asset quality, risk management practices, audit and internal controls, integrity of financial statements and conformance with accounting changes/practices, reliance on noninterest income, outsourcing and vendor activities, interest rate risk models and controls, liquidity and investment portfolio practices and holdings, concentration risk, Basel II implementation, allowance for loan and lease loss methodology and adequacy, and corporate governance. Credit quality and the risk management of concentrations will continue to be areas of emphasis in FY 2007 strategies.

Throughout FY 2006, the OCC continued to help bankers and their customers and communities respond to the aftermath of Hurricane Katrina. These efforts included public service announcements in major U.S. media markets to encourage individuals adversely affected by the hurricane to contact their lenders to discuss options that may be available to assist them. In March 2006, the OCC and other federal banking agencies hosted a forum in New Orleans that brought together financial institutions from within and outside the Gulf Coast region to discuss the challenges facing financial institutions in areas affected by the hurricane and on ways of helping to meet the needs of the local affected communities. In June 2006, *OCC Bulletin 2006-26* transmitted the booklet *Lessons Learned from Hurricane Katrina: Preparing Your Institution for a Catastrophic Event*, developed by the Federal Financial Institutions Examination Council (FFIEC) and the Conference of State Bank Supervisors, to assist institutions in evaluating their readiness for a catastrophic event.

The OCC also monitors and responds to systemic trends and emerging risks in the banking industry. During FY 2006, the OCC worked with other federal bank regulators to develop and issue for comment, proposed risk management guidance on non-traditional mortgage products, concentrations in commercial real estate lending, and complex structured finance transactions. Final action on these guidelines is expected in the coming months.

Basel II and Basel IA

The OCC continues its efforts, along with the other federal bank and thrift regulators, with respect to the U.S. implementation of the "International Convergence of Capital Measurement and Capital Standards: A Revised Framework," generally known as Basel II. The major focus in FY 2006 was the development of the notice of proposed rulemaking (NPR) that will provide the industry and others with detailed information about the U.S. implementation of Basel II. The OCC received clearance from OMB in June 2006 to publish the NPR, which will provide a formal 120-day comment period. In addition to the NPR, the agencies have been working on a package of related supervisory reporting templates and supervisory guidance that also will be published for comment. During FY 2007, the OCC will continue to work with the other federal banking agencies on the Basel II proposals and consult with banks on their implementation efforts.

Work also continues on potential revisions to the risk-based capital standards that would apply to non-Basel II banks (referred to as Basel IA). In December 2006, OCC and other federal banking agencies issued an NPR built upon the evaluation of comments obtained from the advanced notice of proposed rulemaking issued in October of 2005.

As in previous years, the goal is that any changes to capital adequacy rules are consistent with safety and soundness, good risk management practices, and the continued competitive strength of the U.S. banking system.

Bank Secrecy Act/Anti-Money Laundering

During the first part of FY 2006 the OCC incorporated a set of comprehensive initiatives to strengthen OCC BSA/AML examinations, to enhance OCC resources and expertise devoted to BSA/AML supervision, and to provide clear and consistent expectations about

BSA/AML supervision to the industry. The OCC continued, throughout FY 2006, to address BSA/AML compliance, identified as one of the five challenges facing the Treasury Department by the Treasury Office of Inspector General in October 2005, as follows: publication of the revised FFIEC BSA/AML Examination Manual in the summer of 2006; completion of compliance exams for all large banks, 100 percent completion in midsize and high risk community banks, and 90 percent completion for the remaining community banks by the end of FY 2006; and, development of a national pool of BSA/AML examiners, including 20 OCC employees, who as of June 2006, have attained the Certified Anti-Money Laundering Specialist certification, delivery of BSA/AML training to Large Bank Supervision (LBS) Examiners-in-Charge and compliance specialists and an increase in the number of AML schools from four in 2005 to eight in 2006.

OCC will commit to ongoing BSA/AML challenges by ensuring, via FY 2007 bank supervision examination strategies, that banks have adequate and effective BSA/AML programs in place, and by conducting OCC BSA/AML supervisory actions in a fair and consistent manner.

Fair Access to Financial Services and Fair Treatment of Bank Customers

The OCC fulfills its strategic goal of fair access to financial services and fair treatment of bank customers through its ongoing supervisory programs for national banks and their operating subsidiaries. These programs include ongoing supervisory examinations to ensure compliance with fair lending laws, CRA, and other consumer laws and regulations. In addition to supervisory activities, the OCC issues guidance and handbooks and offers training to bankers and bank directors to help them understand and meet their compliance and CRA obligations. The OCC also conducts outreach with a variety of organizations, including advocacy groups, research organizations, community development practitioners, and community development membership organizations whose constituencies include or affect low- and moderate-income consumers, distressed communities, and small and minority-owned businesses.

During FY 2006, the OCC and other federal banking agencies issued interagency questions and answers that address topics related to changes made in the agencies' 2005 revisions to their CRA regulations; updated lists of distressed or underserved non-metropolitan middle-income geographies in which bank revitalization or stabilization activities will receive CRA consideration; and updated median family income levels that are used in CRA performance evaluations. Updated examination procedures for large, small, limited purpose or wholesale banks that incorporate the 2005 CRA regulatory revisions were also published by the agencies.

The OCC, other federal banking agencies and the U.S. Department of Housing and Urban Development released updated answers to frequently asked questions to aid in the interpretation of 2005 home loan data to be disclosed under HMDA. The OCC also issued an updated version of its consumer compliance booklet, *Fair Lending Examination*

Procedures, also published to incorporate several changes in Regulation B (123 CFR 202) and the “Interagency Fair Lending Procedures” issued in 2004.

The OCC actively supports the efforts of national banks to engage in sound and successful community development activities. To assist in these efforts, the OCC publishes periodic *Community Development Insights* papers on products, services, and initiatives that are relevant to community development and consumer banking activities. During FY 2006, papers on commercial lending in Indian Country and on the Small Business Administration’s 504 loan programs were published. In June 2006, the Comptroller of the Currency urged Congress to provide increased authority, via Part 24 legislation revisions, for banks and thrifts to invest in low- and moderate-income communities.

During FY 2006, the OCC continued its work with the other federal banking agencies to improve financial disclosures to consumers. The proposed risk management guidance on non-traditional mortgage products issued in late 2005 extensively discussed consumer protection concerns that may be raised by these products in addition to addressing the traditional areas of safety and soundness. In March 2006, the agencies released *Evolution of a Prototype Financial Privacy Notice,* a report summarizing consumer research contributing to improved financial privacy notices. In August 2006, the OCC issued guidance on disclosure and marketing issues associated with gift cards, which focused on the need for national banks that issue gift cards to do so in a manner in which both purchasers and recipients are fully informed of the product’s terms and conditions. This work will continue in FY 2007.

Supervision Staffing

OCC designated recruitment activities in the Chief National Bank Examiner’s (CNBE) office and LBS examiner positions as high priorities during FY 2006. To attract internal candidates to these positions, the OCC implemented rotational assignments, pay, and relocation and transitional cost of living incentives. Simultaneously, the OCC focused its external recruitment on candidates with expertise in compliance, complex capital market activities, and mortgage banking and authorized referral bonuses to current employees to attract externally hired examiners. During 2006, LBS exceeded expectations by hiring more than 30 individuals from outside the OCC, including nine with compliance expertise. In addition, CNBE filled six critical managerial and group leader positions and hired two individuals from outside the OCC with accounting expertise. The OCC also continued its nationwide recruitment and training program for entry-level bank examiners. Since the program’s inception in FY 2003, approximately 430 examiners have been hired, including over 160 in FY 2006.

To ensure that OCC’s bank supervision organizations have a steady and deep pipeline of qualified employees to meet future leadership needs, the OCC introduced the LeaderTRACK initiative. The program, which will be piloted for 18 months beginning in FY 2007, offers participants three six-month assignments, with significant managerial and supervisory roles, that will develop leadership rather than prepare them for a specific position.

Customer Assistance

The OCC's Customer Assistance Group (CAG) assists consumers who have questions or complaints about national banks and their operating subsidiaries. During the last twelve months, the CAG received nearly 70,000 telephone calls and also published an informational brochure to assist those who are Spanish-speaking. Also, during FY 2006 the OCC achieved resource efficiencies by outsourcing initial calls. The Government Accountability Office (GAO) released a favorable report in 2006 regarding CAG.

CAG goals for FY 2007 include a CAG customer survey, CAG outreach with state regulators, and expanded CAG hours of operation.

Regulation

During FY 2006, the OCC, with other federal banking agencies, conducted the regulatory burden reduction review process, as required by the Economic Growth and Regulatory Paperwork Reduction Act of 1996 (EGRPRA). In FY 2007 OCC is planning to propose an NPR that eliminates or streamlines existing requirements or procedures and enhances national banks' flexibility in conducting authorized activities, either by revising provisions currently contained in OCC regulations or by codifying, and thus making generally applicable, conclusions that the OCC has reached in case-by-case determinations. In addition, the OCC will continue to 1) provide legal analysis of and support for federal preemption and agency visitorial authority under national bank law, in order for national banks to operate efficiently under uniform national standards, and 2) develop and communicate additional guidance regarding principles determining the application of state consumer protection laws to national banks.

SNC Modernization

The Shared National Credit (SNC) is a collaborative review and assessment by the OCC, Federal Reserve System, Federal Deposit Insurance Corporation and Office of Thrift Supervision of the largest and most complex credits that are held by multiple financial institutions. The OCC assumed the lead in FY 2006 of an interagency initiative, which will continue throughout FY 2007, to improve SNC data collection/analysis.

OMB Circular A-123, Management's Responsibility for Internal Control, Appendix A
In FY 2006, the OCC undertook a risk assessment of all business processes related to financial reporting in compliance with OMB Circular A-123, Appendix A. Based on this assessment, the OCC documented 81 business processes and developed and carried out 36 test plans, including coverage of the information systems that support financial reporting. The testing showed no material internal control weaknesses. During FY 2007,

another risk assessment will be conducted, documentation will be developed or revised as needed, and test plans will be carried out to support the FY 2007 assessment over financial reporting.

Homeland Security Presidential Directive 12 (HSPD-12) and Federal Information Security Management Act (FISMA)

During the first quarter of FY 2006, the OCC successfully implemented an integrated Personal Identity Verification (PIV) process which ensured compliance with the PIV-1 requirements of HSPD-12. The OCC implementation strategy included utilizing new technology such as digital fingerprinting machines, document verification software and several new applications providing a secure means of exchanging information on a real time basis with the Office of Personnel Management. In FY 2007 the primary focus under HSPD-12 will be designing, developing and implementing the systems necessary to create and use smartcard IDs which control both physical access to Treasury facilities and logical access to Treasury information systems. The challenge for the OCC will be developing a strategy for enrolling over 3000 existing employees and contractors into a new identity management system and conducting the required identity proofing without adversely impacting the day-to-day operations of the OCC. The challenges will continue with adapting existing processes, procedures and IT infrastructure to work with the new smartcard IDs. The wide geographical distribution of OCC offices and the unique mission of the OCC will require an innovative approach to implementing any HSPD-12 PIV-2 solutions.

The OCC has also made improvements in computer security via policy and technical changes. New rules instituted in FY 2006 on the use of OCC computer equipment and networks include: prohibiting the attachment of unauthorized non-OCC equipment to the OCC network, clarifying procedures for reporting lost or stolen IT equipment, and prohibiting all use of "instant messaging”. Technical changes include: encrypting all OCC network traffic among sites, implementing firewall and intrusion detection software on all laptops and workstations, implementing additional technical controls on all BlackBerry devices, enhancing network intrusion detection, and upgrading both server and workstation/laptop operating systems to versions with better security capabilities. On the compliance side, the OCC continues to refine its approach to documentation, training, and certification and accreditation activities required by the FISMA as well as evolving Treasury and government-wide standards. Employees and contractors in the OCC’s Chief Information Officer's and Acquisitions Management offices with special security responsibility took additional training to underscore and reinforce their security duties.

1C – Industry Outlook

Bank earnings have been strong for the last 15 years, and strong earnings have in turn contributed to healthy capital ratios. Banks have successfully expanded their product range, and this expansion has been an important factor in maintaining robust earnings growth. Along with the greater range of products has come the growing importance of off-balance sheet income, and noninterest income. These have been especially important at the largest banks, and are now becoming important for smaller institutions as well. These trends are expected to continue. There is more uncertainty about banks' ability to continue to rely on the real estate sector to drive asset and earnings growth.

In the following projections, bank assets are assumed to grow 1.5 percentage points faster than nominal GDP each year over the next five years, consistent with experience of the recent past. Assuming annual real GDP growth at 3 percent, and inflation at 2 percent, this gives nominal GDP growth of 5 percent and growth of bank assets at 6.5 percent.

Banking system assets: 2005 and 2010 projected

	Commercial banks Assets ($tr)	National banks Assets ($tr)	Share of total system assets in banks over $10 billion
2005	9.04	6.00	75.1
2010e	12.39	8.22	75.1

The number of banks has fallen steadily for at least two decades. The projection assumes that the long-term trend of banks consolidation will continue, both for national banks and all commercial banks, and that for all but the largest banks, the rate of decline over the next five years will equal the rate of decline experienced over the last five years. In 2005, 84 commercial banks had assets exceeding $10 billion, while about 3,400 banks had assets under $100 million. By 2010, the number of banks over $10 billion is expected to remain about the same, while the number of banks under $100 million is expected to continue to decline, to around 2,500.

Large banks will continue to dominate the industry. Banks with over $10 billion in assets now account for 75.1 percent of system assets, and should be able to maintain if not increase that share.

Until about five years ago, national banks consistently accounted for about 57 percent of all commercial bank assets. Since then, a series of mergers has increased the national bank share to about 67 percent of commercial bank assets.

Risks to the banking system include an economic slowdown, and deterioration in real estate markets, which as noted above have accounted for much of the growth in bank income and assets over the last several years.

Section 2 – Budget Adjustments and Appropriations Language

2.2 – Operating Levels Table

Dollars in Thousands

	FY 2006 Obligated	FY 2007 Estimated	FY 2008 Estimated
FTE	2,812	2,977	3,041
Object Classification:			
11.1 Full-Time Permanent Positions......................	$274,159	$320,750	$342,900
11.1 Other than Full-Time Permanent Positions....	7,130	7,974	8,500
11.5 Other Personnel Compensation.....................	949	1,813	1,800
11.8 Special Personal Services Payments............	0	0	0
11.9 Personnel Compensation (Total)...................	282,238	330,537	353,200
12.0 Personnel Benefits..	95,182	106,356	115,150
13.0 Benefits to Former Personnel........................	215	169	200
21.0 Travel..	35,619	42,259	45,600
22.0 Transportation of Things...............................	2,319	2,603	1,800
23.1 Rental Payments to GSA..............................	196	2,360	2,700
23.2 Rent Payments to Others..............................	24,284	28,873	30,400
23.3 Communications, Utilities, & Misc..................	8,922	12,572	13,300
24.0 Printing and Reproduction.............................	1,158	1,188	1,100
25.1 Advisory & Assistance Services....................	70,018	105,737	101,900
25.2 Other Services..	0	0	0
25.3 Purchase of Goods/Serv. from Govt. Accts…	0	0	0
25.4 Operation & Maintenance of Facilities...........	0	0	0
25.5 Research & Development Contracts.............	0	0	0
25.6 Medical Care..	0	0	0
25.7 Operation & Maintenance of Equipment........	0	0	0
25.8 Subsistence & Support of Persons................	0	0	0
26.0 Supplies and Materials.................................	5,139	6,301	6,300
26.0 Metal and Fabrication....................................	0	0	0
31.0 Non-Capital Equipment................................	27,221	14,030	15,300
32.0 Land and Structures......................................	3,893	18,154	18,800
41.0 Grants, Subsidies..	0	0	0
42.0 Insurance Claims & Indemn..........................	422	50	50
43.0 Interest and Dividends…………………………	0	0	0
44.0 Refunds..	0	0	0
Total Operating………………………………………	$556,826	$671,189	$705,800
Budget Activities:			
Supervision	$471,882	$569,137	$597,600
Regulate	70,992	81,508	87,000
Charter	13,952	20,544	21,200
Total Budget Authority………………………………	$556,826	$671,189	$705,800

2B – Appropriations Language

OCC receives no appropriated funds from Congress.

2C – Legislative Proposals

OCC currently has no legislative proposals.

Section 3 – Budget and Performance Plan

3.1 – Resource Detail Table

Dollars in Thousands

Description	FY 2006 Actual FTE	FY 2006 Actual AMOUNT	FY 2007 Estimated FTE	FY 2007 Estimated AMOUNT	FY 2008 Estimated FTE	FY 2008 Estimated AMOUNT	% Change FY 2007 to FY 2008 FTE	% Change FY 2007 to FY 2008 AMOUNT
Revenue:								
Assessments		$622,278		$661,900		$703,900		6.35%
Interest		21,938		22,300		23,900		7.17%
Other Income		3,759		3,000		3,100		3.33%
Total Revenue		$647,975		$687,200		$730,900		6.36%
Obligations Incurred:								
Supervision	2,375	$471,882	2,545	$569,137	2,603	$597,600	2.28%	5.00%
Regulate	364	70,992	344	81,508	350	87,000	1.74%	6.74%
Charter	73	13,952	88	20,544	88	21,200	0.00%	3.19%
Total Obligations Incurred	2,812	$556,826	2,977	$671,189	3,041	$705,800	2.15%	5.16%
Total Reserve Contribution		$91,149		$16,011		$25,100		56.77%

3A – Supervise *($569,137,000):* The Supervise program consists of those ongoing supervision and enforcement activities undertaken to assure that each national bank is operating in a safe and sound manner and is complying with applicable laws, rules, and regulations relative to the bank and the customers and communities it serves. This program includes bank examinations and enforcement activities; resolution of disputes through the National Bank Appeals process; ongoing monitoring of banks; and analysis of systemic risks and market trends in the national banking system or groups of national banks, the financial services industry, and the economic and regulatory environment.

3.2.1 – Supervise Budget and Performance Plan

Dollars in Thousands

Supervise Budget Activity				**Includes Strategic Objective F3C**	
Resource Level	**FY 2004 Obligated**	**FY 2005 Obligated**	**FY 2006 Obligated**	**FY 2007 Estimated**	**FY 2008 Estimated**
Financial Resources					
Other Resources	371,252	408,091	471,882	569,137	597,600
Total Operating Level	**$371,252**	**$408,091**	**$471,882**	**$569,137**	**$597,600**
Human Resources					
Other FTE	2,212	2,250	2,375	2,545	2,603
Total FTE (reimbursable)	**2,212**	**2,250**	**2,375**	**2,545**	**2,603**

Supervise Budget Activity				Includes Strategic Objective F3C		
Measure		FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Percentage of national banks that are well capitalized (%) (Oe)	Target	95%	95%	95%	95%	95%
	Actual	99%	99%	99%		
	Met	Yes	Yes	Yes		
Percentage of national banks with composite CAMELS rating 1 or 2 (%) (Oe)	Target	90%	90%	90%	90%	90%
	Actual	94%	94%	95%		
	Met	Yes	Yes	Yes		
Percentage of national banks with consumer compliance rating of 1 or 2 (%) (Oe)	Target	94%	94%	94%	94%	94%
	Actual	96%	94%	94%		
	Met	Yes	Yes	Yes		
Rehabilitated problem national banks as a percentage of the problem national banks one year ago (CAMELS 3, 4 or 5) (%) (Oe)	Target	40%	40%	40%	40%	40%
	Actual	40%	44%	46%		
	Met	Yes	Yes	Yes		
Total OCC costs relative to every $100,000 in bank assets regulated ($) (E)	Target			Baseline	$9.55	$9.55
	Actual			$8.84		
	Met			Yes		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction

Description of Performance:

Well Capitalized National Banks
The Federal Deposit Insurance Act established a system of prompt corrective action (PCA) that classifies insured depository institutions into five categories (well capitalized; adequately capitalized; undercapitalized, significantly undercapitalized; and critically undercapitalized) based on their capital levels relative to their risks. At the fiscal year-end, 99 percent of national banks were classified as well capitalized. National banks' capital has remained at this consistently high level for the past several years.

National Banks with Composite CAMELS Rating of 1 or 2
The composite CAMELS rating reflects the overall condition of a bank. Bank regulatory agencies use the Uniform Financial Institutions Rating System, CAMELS, to provide a general framework for evaluating all significant financial, operational and compliance factors inherent in a bank. Evaluations are made on: **C**apital adequacy, **A**sset quality, **M**anagement, **E**arnings, **L**iquidity, and **S**ensitivity to market risk. The rating scale is 1 through 5 where 1 is the highest rating granted. CAMELS ratings are assigned at the completion of every supervisory cycle or when there is a significant event leading to a change in CAMELS. In FY 2006, 95 percent of national banks earned a composite CAMELS rating of either 1 or 2, signifying an overall safe and sound national banking system and a foundation for a strong U.S. economy.

Rehabilitated National Banks
Problem banks can ultimately reach a point where rehabilitation is no longer feasible. OCC's early identification of, and intervention with, problem banks can lead to successful remediation of these banks. The OCC recommends corrective actions to problem banks for improving their operations and as a result, 46 percent of banks with composite CAMELS rating of 3, 4 or 5 one year ago have improved their ratings to either 1 or 2 this year. This is an improvement from 44 percent achieved in FY 2005 and the 40 percent achieved in FY 2004.

National Banks with Consumer Compliance Rating of 1 or 2

To ensure fair access to financial services and fair treatment of bank customers, the OCC evaluates a bank's compliance with consumer laws and regulations. Bank regulatory agencies use the Uniform Financial Institutions Rating System, Interagency Consumer Compliance Rating, to provide a general framework for assimilating and evaluating significant consumer compliance factors inherent in a bank. Each bank is assigned a consumer compliance rating based on an evaluation of its present compliance with consumer protection and civil rights statutes and regulations, and the adequacy of its operating systems designed to ensure continuing compliance. Ratings are on a scale of 1 through 5 in increasing order of supervisory concern. National banks continue to show strong compliance with consumer protection regulations with 94 percent earning a consumer compliance rating of either 1 or 2.

Total OCC Costs Relative to Every $100,000 in Bank Assets Regulated

Beginning in FY 2006, the OCC implemented a performance measure—Total OCC Costs Relative to Every $100,000 in Bank Assets Regulated—that reflects the efficiency of its operations while meeting the increasing supervisory demands of a growing and more complex national banking system. OCC costs are those reported as total program costs on the annual audited Statement of Net Cost. Bank assets are those reported quarterly by national banks on their Reports of Condition and Income. Total bank assets represent the growth and complexity of the national banking system. This measure supports the OCC's strategic goal of efficient use of agency resources. The OCC's ability to control its costs while ensuring the safety and soundness of the banking system benefits all national bank customers.

3B – Regulate *($81,508,000):* The Regulate program consists of those ongoing activities that result in the establishment of regulations, policies, operating guidance, and interpretations of general applicability to national banks. These regulations, policies, and interpretations may establish system-wide standards, define acceptable banking practices, provide guidance on risks and responsibilities facing national banks, or prohibit (or restrict) banking practices deemed to be imprudent or unsafe. The program also provides analysis and legal opinions on federal preemption of state law. This program includes the establishment of examination policies, handbooks, and interpretations for examiners as well as representing the OCC's regulatory authorities and interpretations in administrative, judicial, and congressional hearings.

3.2.2 – Regulate Budget and Performance Plan

Dollars in Thousands

Regulate Budget Activity			Includes Strategic Objective E1B		
Resource Level	**FY 2004 Obligated**	**FY 2005 Obligated**	**FY 2006 Obligated**	**FY 2007 Estimated**	**FY 2008 Estimated**
Financial Resources					
Other Resources	61,763	64,011	70,992	81,508	87,000
Total Operating Level	**$61,763**	**$64,011**	**$70,992**	**$81,508**	**$87,000**
Human Resources					
Other FTE	368	353	364	344	350
Total FTE (reimbursable)	**368**	**353**	**364**	**344**	**350**

3C – Charter *($20,544,000):* The Charter program involves those ongoing activities that result in the chartering of national banks as well as the evaluation of the permissibility of structures and activities of national banks and their subsidiaries. This includes the review and approval of new national bank charters, federal branches and agencies, mergers, acquisitions, conversions, business combinations, corporate reorganizations, changes in control, operating subsidiaries, branches, relocations, and subordinated debt issues.

3.2.3 – Charter Budget and Performance Plan

Dollars in Thousands

Charter Budget Activity			Includes Strategic Objective E1B		
Resource Level	**FY 2004 Obligated**	**FY 2005 Obligated**	**FY 2006 Obligated**	**FY 2007 Estimated**	**FY 2008 Estimated**
Financial Resources					
Other Resources	16,448	15,011	13,952	20,544	21,200
Total Operating Level	**$16,448**	**$15,011**	**$13,952**	**$20,544**	**$21,200**
Human Resources					
Other FTE	98	83	73	88	88
Total FTE (reimbursable)	**98**	**83**	**73**	**88**	**88**

Charter Budget Activity				Includes Strategic Objective E1B		
Measure		**FY 2004**	**FY 2005**	**FY 2006**	**FY 2007**	**FY 2008**
Percentage of licensing applications and notices completed within established timeframes. (%) (Oe)	Target	95%	95%	95%	95%	95%
	Actual	96%	96%	94%		
	Met	Yes	Yes	No		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction

Description of Performance:

Licensing Applications and Notices Completed within Time Frames
The OCC's timely and effective approval of corporate applications contributes to the nation's economy by enabling national banks to complete various corporate transactions and introduce new financial products and services. Delays in providing prompt decisions on applications and notices can deprive a bank of a competitive or business opportunity, create business uncertainties, or diminish financial results. Time frames have been established for completing each type of application and notice. The OCC completed 94 percent of applications and notices within the time standard during FY 2006. The target of 95 percent wasn't met as the result of several applications that initially appeared to be routine in nature requiring additional time due to unique circumstances. Institutions receiving decisions on their corporate applications and notices rated the OCC's overall licensing services an average of 1.2. The licensing survey is based on a five-point rating scale, in which 1 indicates outstanding and 5 indicates significantly deficient.

For detailed information about each performance measure, including definition, verification and validation, please go to:
http://www.treas.gov/offices/management/dcfo/accountability-reports/2006-par/Part_IV_Appendices.pdf

Section 4 – Supporting Materials

4.1 – Human Resources Table

Changes in Full Time Equivalents Direct and Reimbursable		FY 2006	FY 2007	FY 2008
Base: Year-end Actual from Prior Year		2,686	2,812	2,977
Increases:				
Hiring:	Recruitment for supervision for large banks subject to increasing complexity, maintaining community bank oversight, and replacement of losses in other areas due to normal turnover.	366	355	254
Subtotal, Increases		366	355	254
Decreases:				
Normal Attrition:	Separations anticipated as a result of resignations or retirements of permanent staff and termination of temporary appointments.	-240	-190	-190
Subtotal, Decreases		-240	-190	-190
Year-end Actual/Estimated FTEs		2,812	2,977	3,041
Budgeted FTEs		2,812	2,977	3,041
Actual FTEs Utilized				
Net Change from prior year SOY to budget year EOY				229

4A – Human Capital Strategy Description

The OCC has developed bureau-specific human capital goals to meet its overall strategic goal of maintaining an expert, highly motivated, and diverse workforce. The first is to align and employ OCC workforce resources consistent with current and projected agency priorities. To help achieve this goal, on an annual basis, OCC will identify high priority recruitment needs and approve incentives specifically designed to address those priorities. Other strategies include: 1) using all qualified personnel on priority assignments, realizing the increasing dependence and need for "fungibility" among and within various disciplines; 2) using the midsize/community banks area as the primary entry-level recruitment, training, and development vehicle to provide a diverse bank examiner selection pool for many departments and divisions in the bureau; 3) continuing to implement OCC's Strategic Plan for Active Recruitment, Retention, and Career

Development (SPARC); 4) building a more inclusive, accepting environment for differences and better assist employees in effectively navigating in OCC's work environment; and 5) identifying skill gaps and using them to establish recruitment and training priorities as part of OCC's ongoing strategic planning process.

SPARC is the bureau's five-year diversity strategy that includes goals, objectives, and activities for the recruitment, hiring, and development of all OCC employees, including women, minorities, and individuals with disabilities. It has been used successfully to attract, hire, and retain a diverse pool of applicants with superior qualifications. Recruiting has been very successful in meeting the OCC's targeted hiring numbers and diversity objectives. Since June 2003, OCC has hired 430 new entry-level examiners, of which 54.7 percent are women and 38.1 percent are minorities.

A second human capital goal is to develop current and future leaders who demonstrate strong strategic, people management, and technical skills. To achieve this goal, the OCC is piloting a leadership development program based upon identified competencies. The OCC also will focus on aligning leadership performance expectations with organizational goals; preparing leaders to create and sustain a productive work environment and assume responsibility for developing staff. The implementation of five new internal leadership courses will take place in FY 2007.

A third human capital goal is to maintain strategic compensation/benefit programs and performance systems that link with organizational goals and mission accomplishment, enable the OCC to recruit and retain critical positions, and reward high performers. To accomplish this goal, the OCC regularly reviews and adjusts compensation and benefits and performance management programs to ensure that they continue to support OCC objectives. The OCC operates under a merit-based performance system. Annual across-the-board increases are not granted; rather salary increases are awarded based on merit to reward employee performance, employee development that is relevant to OCC needs and employee contributions to OCC's priorities. The OCC continually evaluates its programs to ensure that there is an appropriate correlation between pay and performance.

4.2 – Summary of IT Resources Table

Dollars in Millions

Information Technology Investments (in $ Millions)		FY 2005		FY 2006	% Change	FY 2007		FY 2008	
Major IT Investments	Budget Activity/Funding Source	Operating Plan	Obligations	Operating Plan	from FY05 Obligations to FY06	Estimated Budget	% Change from FY06 to FY07	Estimated Budget	% Change from FY07 to FY08
SIS	OCC - Supervise	$6.295	$6.295	$1.000					
LIS	OCC - Charter	3.036	3.036	3.732					
Management and Accountability Reporting Tools ($MART)	OCC - Supervise	1.668	1.668	1.628					
Total - Major		$10.999	$10.999	$6.360	-42.2%				
Non-Major IT Investments									
CAR & FINDRS Redesign Requirements	OCC - Supervise	$0.000		$0.117					
Conference Office Scheduling and Booking System	OCC - Manage	0.029		0.024					
Core Knowledge Datamart - 03	OCC - Supervise	0.042		0.004					
Enforcement Action Metasearch	OCC - Charter, Supervise, Regulate	0.207		0.000					
E-Time	OCC - Manage	0.993		0.384					
Examination Survey Program	OCC - Supervise	0.058		0.012					
Large Bank Datamart	OCC - Supervise	0.089		0.004					
Manager Data Mart Enhancement	OCC - Manage	0.071		0.004					
Next Gen CAG Reports/Reporting and Application Migration	OCC - Supervise	0.190		0.000					
OCC - CCORe	OCC - Charter, Supervise, Regulate	0.000		0.350					
OCC - ePublishing	OCC - Charter, Supervise, Regulate, Manage	0.000		0.350					
OCC - SIS-DM	OCC - Supervise	0.000		0.500					
Operational Data Store - 03	OCC - Manage	0.344		0.234					
Supervisory Reports Repository	OCC - Supervise	0.000		0.050					
Suspicious Activity Reports (SARS)	OCC - Supervise	0.193		0.201					
Total - Non-Major		$2.216		$2.234					
Infrastructure Investments									
OCC - FY06 Infrastructure		$8.161		$8.182		$11.267			
OCC - FY06 Office Automation		13.822		22.135		18.637			
OCC - FY06 Security		2.772		2.916		4.096			
OCC - FY06 Telecommunications		8.199		11.299		15.071			
Total - Infrastructure Investments		$32.954		$44.532		$49.071	10.2%		
Enterprise Architecture		$0.323		$0.329		$0.335	1.8%		
Sub-total - OCC IT Investments		$46.492		$53.455		$49.406	-7.6%		
FY07 OCC FISMA/CPIC PORTFOLIO									
FISMA Major Investments									
Chief Counsel	OCC - Charter, Supervise, Regulate					$0.750		$0.704	
Enterprise Services	OCC - Charter, Supervise, Regulate, Manage		$4.177			1.909		1.056	
Examinations	OCC - Supervise					4.730		4.177	
Fiscal Management	OCC - Manage					N/A		$0.200	
Total - FISMA Major Investments			$4.177			$7.389		$6.137	-16.9%
FISMA Non-Major IT Investments									
Employee Security	OCC - Manage					$0.565		$0.000	
International Economic	OCC - Supervise					0.050		0.000	
Ombudsman	OCC - Supervise					0.796		0.000	
Workforce Operations	OCC - Manage					0.005		0.000	
Total - FISMA Non-Major Investments						$1.416		$0.000	-100.0%
TOTAL OCC IT INVESTMENTS		$46.492	$4.177	$53.455		$58.211		$6.137	-89.5%

4B – Information Technology Strategy

At the end of FY 2005, the OCC's Investment Review Board (IRB) and Technology and Systems Subcommittee (TSS), which is comprised of executive level members and chaired by the Chief Information Officer (CIO), moved from an annual selection process to a year round process in which new projects could be selected to the portfolio quarterly or monthly (emergency request). All new investments are subject to business case scoring, enterprise architecture and security alignment, and appropriate systems development lifecycle documentation. New investments are funded through the IRB Portfolio Reserve account which acts as a discretionary account managed by the IRB to fund new or provide additional funding to existing investments.

Linkage to OCC programs and strategic goals are documented in each project business case and prioritized by the IRB and TSS. Performance metrics are linked to the delivery, alignment, and achievement of OCC strategic program objectives. Investments are monitored on a quarterly basis by the IRB and TSS. OCC's IT investments are also subject to Quarterly Control reviews conducted by Treasury's CIO Council. OCC is in the process of developing an IT strategic plan. The plan will link IT strategic goals and objectives with OCC strategic business goals and objectives. Publication of the plan is scheduled for the end of calendar year 2006. The plan will contain measurable objectives for each goal identified in the strategic plan.

4.3 – PART Evaluation Table

PART Name: Bank Supervision

Strategic Goals:	Preserve the integrity of financial systems (F3) Promote prosperous U.S. and World economies (E1)
Rating:	Effective

OMB Major Findings/Recommendations

1. The FY 2003 assessment of the OCC's Bank Supervision found that the program purpose is clear, goals are outcome-oriented, program measurements are clear, program is efficiently and effectively managed, but the program is not unique in that other agencies perform similar types of regulatory functions in the banking industry.

2. Federal banking regulatory agencies, including the OCC, the Office of Thrift Supervision (OTS), the National Credit Union Administration (NCUA), the Federal Reserve, and the Federal Deposit Insurance Corporation (FDIC), should work together to align outcome goals and related measures to allow for greater comparison of program performance in the industry.

Bureau Actions Planned or Underway

1. Regulatory agencies that include the OCC, OTS, NCUA, FDIC, Federal Reserve, Office of Federal Housing Enterprise Oversight (OFHEO), Securities and Exchange Commission (SEC), and the Federal Housing Finance Board (FHFB) continue to share their strategic plans, performance plans, and performance measures on a regular basis. This allows each agency to consider the approaches used by the other agencies when developing or revising their goals and measures. The OCC and OTS, as bureaus in the Department of the Treasury, continue to work together to maintain alignment of their performance measures.

For a complete list of PART results visit the following website:
http://www.whitehouse.gov/omb/expectmore/all.html