Office of the Comptroller of the Currency

FY 2013

President's Budget Submission

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Section 1 – Purpose

1A – Mission Statement

To assure the safety and soundness of, and compliance with laws and regulations, fair access to financial services, and fair treatment of customers by national banks and federal savings associations

1.1 – Resource Detail Table

Dollars in Thousands

	FY 2011 Actual/1		FY 2012 Estimated/2		FY 2013 Estimated/2		% Change FY 2012 to FY 2013	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Budgetary Resources:								
Revenue/Offsetting Collections								
Assessments		$864,524		$967,400		$986,748		2.00%
Interest		$21,153		$16,800		$17,136		2.00%
Other Income		$9,828		$22,200		$22,644		2.00%
Total Revenue/Offsetting Collections		**$895,505**		**$1,006,400**		**$1,026,528**		**2.00%**
Unobligated balances, Start of year		$847,259		$1,163,000		$801,000		(31.13%)
Unobligated balance transferred		$245,034						
Total Budgetary Resources Available		**$1,987,798**		**$2,169,400**		**$1,827,528**		**(15.76%)**
Expenses/Obligations								
Supervise	2,740	$707,845	3,280	$1,052,200	3,345	$942,000	2.00%	(10.47%)
Regulate	334	$95,699	445	$142,800	454	$127,870	2.00%	(10.45%)
Charter	76	$21,450	97	$31,079	99	$27,830	2.00%	(10.45%)
Total Expenses/Obligations/3	**3,150**	**$824,994**	**3,822**	**$1,226,079**	**3,898**	**$1,097,700**	**2.00%**	**(10.47%)**
Net Results		**$1,162,804**		**$943,321**		**$729,828**		**(22.63%)**

(1) Effective July 21, 2011, the OCC assumed responsibility for regulating federal savings associations.
(2) FY 2012 and FY 2013 estimates include the cost of regulating the national banks and federal savings associations.
(3) Estimates of total budgetary obligations in FY 2012 do not match those presented in the President's Budget due to inclusion of the OTS Public Enterprise Fund, which was included in error.

1B – Mission Priorities and Context

The Office of the Comptroller of the Currency (OCC) was created by Congress to charter national banks, oversee a nationwide system of banking institutions, and ensure national banks are safe and sound, competitive and profitable, and capable of serving in the best possible manner the banking needs of their customers. Effective on July 21, 2011, Title III of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), transferred to OCC responsibility for the supervision of federal savings associations (thrifts) and rulemaking authority for all savings associations.

The OCC supervises 1,400 national bank charters and 48 federal branches of foreign banks in the United States with total assets of approximately $8.9 trillion as of September 30, 2011. Effective July 21, 2011, with the OCC/Office of Thrift Supervision (OTS) integration, the OCC assumed supervisory responsibility of 637 federal savings associations, which include 216 mutuals, with total assets of over $922 billion. The average size and complexity of the institutions in the national banking system continue to grow. This, combined with the OCC's supervision of federal savings associations and responsibility for the Home Owners' Loan Act, creates increasing and diverse challenges for the OCC.

The OCC has established four strategic goals outlined in its strategic plan that help support a strong economy for the American public: 1) A safe and sound system of national banks and federal savings associations; 2) Fair access to financial services and fair treatment of national bank and federal savings association customers; 3) A flexible legal and regulatory framework that enables national banks and federal savings associations to provide a full, competitive array of financial services consistent with statutory and prudential safety and soundness constraints; and 4) A competent, highly motivated, and diverse workforce that makes effective use of OCC resources. The OCC organizes its activities under three programs: 1) Supervise, 2) Regulate, and 3) Charter, to achieve its goals and objectives. Effective supervision, supported by a comprehensive regulatory framework, are the key tools the OCC uses to ensure that national banks and federal savings associations operate in a safe and sound manner and that they provide fair access to financial services and fair treatment of their customers. A robust chartering program allows new entry into the financial services sector while ensuring that such new entrants have the necessary capital, managerial, and risk management processes to conduct activities in a safe and sound manner.

The OCC's priorities focus on strengthening the resiliency of the institutions subject to its jurisdiction through our supervisory and regulatory programs and activities. A stronger and more resilient banking system directly supports the Department of the Treasury's (Treasury) strategic goals to: 1) Continue to repair and reform the financial system and support the recovery of the housing market; 2) Enhance U.S. competitiveness and promote international financial stability and balanced global growth; 3) Protect our national security through targeted financial actions; 4) Pursue comprehensive tax and fiscal reform; and 5) Manage the government's finances in a fiscally responsible manner.

Through on-site examinations, the OCC works to ensure that national banks and federal savings associations appropriately identify, account for, and follow prudent strategies for problem assets; and instill a strong corporate governance culture that fosters sound loan underwriting standards, properly aligned incentive compensation structures, and strong internal controls, risk management, and compliance functions. Other supervisory priorities will be identifying and resolving potential problem banks at the earliest possible stage; encouraging national banks and federal savings associations to meet the needs of creditworthy borrowers, including appropriate and effective residential mortgage modification programs; ensuring that institutions comply with the Community Reinvestment Act (CRA), the Bank Secrecy Act/Anti-Money Laundering (BSA/AML), and the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act requirements and that they maintain strong controls and risk management processes for information security; and further enhancing the OCC's supervisory analytical tools.

Operations are funded primarily (approximately 97 percent) from semiannual assessments levied on national banks, and federal savings associations. Revenue from investments in Treasury securities and other income comprise the remaining three percent of the OCC's funding. The OCC does not receive congressional appropriations to fund any portion of its operations.

Supervisory Activities

The OCC has various ways to influence the banking system: 1) Policy guidance and regulations that set forth standards for sound banking practices; 2) On-site examinations and ongoing off-site monitoring that enable the OCC to assess compliance with those standards and to identify emerging risks or trends; and 3) A variety of supervisory and enforcement tools – ranging from matters requiring board's and management's attention to informal and formal enforcement actions – that are used to obtain corrective action to remedy weaknesses, deficiencies, or violations.

The OCC supervisory activities in FY 2011 centered on evaluating and strengthening the quality of banks' risk management to identify, measure, monitor, and control the build-up of risk, both on and off-balance sheet. A primary focus of on-site supervisory activities was the quality of banks' credit risk management practices, as evidenced by effective credit risk rating systems and problem loan identification, adequate loan loss reserves in light of deteriorating credit quality, and effective loan work-out strategies. The OCC continues to encourage lenders to work with creditworthy borrowers who may be facing financial difficulties. Other areas of emphasis were sound interest rate risk and liquidity risk management, with diversified funding sources and realistic contingency funding plans, and strengthening capital buffers to address further earnings pressures and asset quality deterioration. While assessing credit quality, adequacy of loan loss reserves, liquidity, capital, and risk management practices have been and continue to be the OCC's primary focus, the OCC is cognizant of the continuing need to address supervisory issues in the areas of fair lending, consumer protection, BSA/AML, and information security.

In addition to its ongoing supervisory activities, the OCC undertook the following initiatives in FY 2011:

- *Integration of OTS Supervisory Responsibilities:* Much of the OCC's activities during FY 2011 focused on ensuring a smooth transition. During fourth quarter of FY 2011, the integration of OTS staff was successfully completed and the supervision of federal savings associations was integrated into the OCC's bank supervision operations. The integration efforts are now focused on coordinating and consolidating the various rules and policies that apply to national banks and federal savings associations. As part of this effort, the OCC is undertaking a comprehensive, multi-phased review of the OCC and OTS regulations to eliminate duplication and reduce unnecessary regulatory burden.

- *Transfer of Functions to the Consumer Financial Protection Bureau (CFPB):* Pursuant to Section 1061 of the Dodd-Frank Act, effective July 21, 2011, the responsibility for certain consumer protection examination functions for institutions over $10 billion in assets was tranferred to the CFPB. The OCC worked closely with Treasury and CFPB staff to facilitate this transition of responsibilities and to support the creation of the CFPB.

- *Establishment of the Office of Minority and Women Inclusion (OMWI):* Pursuant to Section 342 of the Dodd-Frank Act, effective January 21, 2011, the OCC established the Office of Minority and Women Inclusion and appointed an executive director.

- *Supervisory and Enforcement Actions for Mortgage Foreclosure and Servicing Activities:* In the wake of the reported improprieties in the foreclosure processes used by several large mortgage servicers, in the Fall of 2010, the OCC initiated a horizontal, on-site review at the eight largest national bank mortgage servicers. On April 13, 2011, the OCC announced formal enforcement actions against these servicers and two third-party servicers for unsafe and unsound practices related to residential mortgage loan servicing and foreclosure processing. The enforcement actions, among other things, require the servicers to make significant improvements in practices for residential mortgage loan servicing and foreclosure processing. This process has two components—a coordinated claims process that will review cases based on borrowers' requests and a "look-back" review that will examine cases sampled by the independent consultants. For any financial injury that the reviews identify, the consent orders require financial remediation.

  In addition to these actions against specific mortgage servicers, the OCC is working with other federal regulators to develop a set of comprehensive and robust, nationally applicable mortgage servicing standards that would apply to all servicers. Work on this project will continue in FY 2012.

- *Implementation of* the *Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (S.A.F.E. Act) Registration Requirements:* The OCC led the interagency effort to implement the registration requirements of the S.A.F.E. Act. The Registry became operational for federal registrations in January 2011. The OCC worked with the CFPB to ensure a smooth transition of responsibility for the software development contract effective with the CFPB transition date.

- *Quarterly Mortgage Metrics Reporting:* The OCC's quarterly report covers approximately 63 percent of all first-lien mortgages in the United States, representing $5.7 trillion in outstanding balances. The Dodd-Frank Act amended Section 104 of the Helping Families Save Their Homes Act of 2009, which requires the OCC to provide Mortgage Metrics data to Congress separately for each state. The OCC began providing this required state-by-state information with the fourth quarter 2010 report, issued in March 2011.

- *Enhanced Real Estate Appraisals and Evaluations:* In December 2010, the OCC and other federal financial regulators issued final supervisory guidance on sound practices by financial institutions for real estate appraisals and evaluations. The agencies' guidelines emphasize the importance of institutions maintaining strong internal controls to ensure reliable appraisals and evaluations. The guidelines also remind institutions of the need to monitor and periodically update valuations of collateral for existing real estate loans and for transactions, such as modifications and workouts, according to the guidelines.

- *Enhanced Practices for Sound Risk Model Management:* Banks routinely use models for a broad range of activities, including underwriting credit; valuing exposures, instruments, and positions; measuring risk; managing and safeguarding client assets; and determining capital and reserve adequacy. To address observed weaknesses and strengthen practices, in April 2011, the OCC and Federal Reserve Board (FRB) of Governors issued *Supervisory Guidance on Model Risk Management*. This guidance articulates the elements of a sound program for effective management of risks that arise when using quantitative models in bank decision making. It also provides guidance to OCC examining personnel and financial institutions on prudent model risk management policies, procedures, practices, and standards.

- *Enhanced Practices for Customer Authentication in Internet Banking Environment:* Financial institutions and their customers are subject to increasingly sophisticated attacks on the security of their financial data and transactions. In June 2011, the OCC and other federal financial regulators issued supplemental guidance to the industry on authentication practices for Internet banking transactions. The guidance updates the agencies' expectations regarding customer authentication, layered security, or other controls in the increasingly hostile online environment.

- *Effective Counterparty Risk Management:* Counterparty Credit Risk (CCR) arises in derivative transactions and is the risk that the counterparty to a transaction could default or deteriorate in creditworthiness before the final settlement of a transaction's cash flows. The financial crisis revealed weaknesses in CCR management at many banks. In response to these weaknesses, the OCC and other federal banking agencies issued guidance in July 2011 to set forth expectations for effective CCR management. The guidance stresses the importance of sound corporate governance and also covers risk management and measurement issues to effectively identify and control these risk exposures.

Enforcement Activities
As needed, the OCC uses its enforcement authority to address safety and soundness violations and noncompliance with laws and regulations. In addition to the enforcement actions for mortgage foreclosure and servicing activities described previously, the OCC and OTS issued 184 enforcement actions against financial institutions and 240 enforcement actions against individuals in FY 2011. Significant actions included:

- A settlement with Woodforest National Bank, The Woodlands, Texas, that required the bank to pay approximately $32 million in reimbursement to consumers who were harmed by the bank's overdraft program, plus a Civil Money Penalty (CMP) of $1 million. The bank agreed to change its overdraft program in order to correct any violations of law. The OCC concluded that the bank engaged in unfair or deceptive practices that violated the Federal Trade Commission (FTC) Act. Specifically, the bank assessed excessive amounts of overdraft fees and improperly assessed recurring fees, or "continuous overdraft fees" against certain consumers.

- A Formal Agreement against Bank of America, N.A., Charlotte, North Carolina, requiring payment of restitution plus prejudgment interest ($9.2 million to 38 municipalities and non-profit organizations) and Formal Agreement against JPMorgan Chase requiring payment of restitution plus prejudgment interest ($13 million to 48 such counterparties) and CMP of $22 million in connection with a scheme to rig bids and fix prices in the sale of derivative products to municipalities. Settlement also resulted in multi-million dollar global settlements with the Department of Justice, Internal Revenue Service, Securities and Exchange Commission, FRB and 25 State Attorneys General.

- A Cease and Desist Order against HSBC Bank USA, N.A., McLean, Virginia, for violating the Bank Secrecy Act, concurrent with a Board of Governors of the Federal Reserve System Cease and Desist Order upon Consent with the bank's parent company, HSBC North America Holdings, Inc.

- Assessment of CMPs against Zions First National Bank, Salt Lake City, Utah and Pacific National Bank, Miami, Florida for unrelated violations of the Bank Secrecy Act and USA PATRIOT Act.

- Assessment of a CMP against JPMorgan Chase Bank, N.A., related to the marketing and sale of a credit protection product by Chase Auto Finance, a division of the Bank. The OCC found that Chase Auto used written scripts together with oral high-pressure sales tactics that included statements which were materially false, deceptive or otherwise misleading in violation of the FTC Act. The bank took remedial actions to correct violations of law and/or other deficient practices, including distributing nearly $25 million to affected customers.

Regulatory Activities
The OCC devoted a significant amount of resources in FY 2011 to regulatory activities relating to implementation of the Dodd-Frank Act, including preparation of studies, interagency consultation, issuance of rulemaking proposals, and support of the Acting Comptroller's participation on the Financial Stability Oversight Council.

The OCC's strategic objectives emphasize regulatory oversight practices that support national banks' and federal savings association's ability to compete while maintaining safety and soundness. During FY 2011, the OCC issued legal interpretations allowing its regulated institutions to support the value of foreclosed properties and contribute to community economic stability. The OCC will continue its legal work of analysis and interpretation of national bank powers and authorities during FY 2012. This work is being carried forward to include the federal savings association industry.

Charter Activities
In FY 2011, the OCC issued 1,382 corporate licensing decisions, with a 97 percent on time rate. In order to address potential safety and soundness problems before they arise, the OCC may impose conditions upon bank transaction approvals covering, for example, capital and liquidity arrangements and deviations from business plans. In FY 2011, the OCC continued to experience a significant share of applications involving resolution of problem financial institutions.

FY 2012 and 2013 Priorities
A major focus of the OCC's supervisory, regulatory, and administrative programs in FY 2012 and 2013 will be implementing applicable provisions of the Dodd-Frank Act and the enhanced capital framework under Basel III. Work will also continue to fully integrate the applicable regulatory, supervisory policy and examination platforms for national banks and federal savings associations and to ensure that these institutions comply with applicable new statutory and regulatory requirements. Priorities and activities include the following:

- Conduct examinations based on the risk profile of individual national banks and federal savings associations to ensure they are safe and sound, sufficiently capitalized, and comply with consumer protection laws and regulations[1];

- Assess the adequacy of national banks and federal savings associations credit, liquidity, internal controls, compliance, and corporate governance processes and require corrective action when deficiencies or undue risk concentrations are found;

- Continue to monitor and assess the effectiveness of national bank and federal savings association mortgage servicers' loan modification and foreclosure actions, including needed actions to improve the corporate governance of their processes;

- Resolve problem national banks and federal savings associations situations effectively by identifying problems at the earliest possible stage, clearly communicating concerns and expectations to bank management through appropriate enforcement actions, and ensuring timely follow-up on needed corrective actions;

- Strengthen the credit culture across the national banking system and federal savings associations to ensure prudent underwriting standards are maintained;

- Develop and implement policies to ensure that national banks and federal savings associations establish and maintain incentive compensation policies that are consistent with principles of safety and soundness and do not encourage imprudent risk-taking;

- Work with other domestic and international supervisors to implement stronger capital and liquidity requirements and more robust risk management standards for large financial institutions;

- Enhance the OCC's ability to anticipate, identify, and respond to build-ups in risk and emerging issues through improved supervisory analytical tools, stress testing, and market intelligence capabilities;
- Combat fraud and money laundering, and protect the integrity of the financial system through national banks' and federal savings associations' compliance with the BSA/AML, USA PATRIOT Act laws and regulations;

- Work with Treasury and other federal financial regulators to implement the Dodd-Frank Act;

- Continue to support a competitive national banking and federal savings association system through entry of new charters, other bank and federal savings association structure

[1] Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Consumer Financial Protection Bureau was given the authority to supervise and examine insured depository institutions with total assets over $10 billion for compliance with federal consumer financial laws. The OCC will continue to conduct examinations to assess compliance with consumer protection issues for national banks and federal savings associations with $10 billion or less in total assets, and to examine all national banks and federal savings associations for compliance with the Bank Secrecy Act, flood insurance regulations, and the Community Reinvestment Act.

transactions, and expansion of national bank and federal savings association services and products in a safe and sound manner; and

- Maintain a highly skilled and experienced workforce by continuing efforts to identify and develop the next generation of bank supervision leadership, strengthen the breadth and depth of examiner specialty skills, and recruit and retain entry-level examiners.

Industry Outlook

The OCC and the national banking and federal savings association industry continue to operate in a highly challenging environment. While economic conditions are expected to improve in FY 2012, many institutions will continue to have significant volumes of troubled loans and borrowers that will consume resources and, for some, strain earnings and capital. In addition, the shadow inventory of distressed residential properties will continue to strain the housing market recovery. Geopolitical uncertainties and volatility in commodity prices may elevate and amplify risk exposures in the system.

National banks and federal savings associations will face heightened compliance, reputation, and strategic risks as a result of significant changes in the statutory, regulatory, and accounting requirements for various bank products, services, and transaction structures. National banks and federal savings associations will need to successfully integrate these changes into their operations and it is likely that some of these changes will foster fundamental shifts in some national banks' and federal savings associations' business models and strategic plans.

To address these challenges, the OCC will need to conduct ongoing assessments of emerging risks and the underlying condition of national banks and federal savings associations, and to prioritize and allocate resources to the areas and institutions of highest risk.

National banks and federal savings associations have endured several years of disruption to financial markets, a crisis in the mortgage sector, and now a slow recovery from a long and deep recession. The long-term trend of national bank and federal savings association consolidation is likely to continue. If national bank and federal savings association assets continue to grow at the rate of nominal Gross Domestic Product (GDP), and if GDP growth returns to its historical average over the next five years, assets could grow in the way shown in Table A which follows. In this table, estimates for the number of institutions and for share of assets at banks over $10 billion in size are based on an assumption of a continuation of trends experienced between 2000 and 2010. Trust companies and foreign branch offices are excluded from the projections because compared to national banks and federal savings associations, their growth is less closely linked to underlying economic trends.

Table A

Estimated Change	Number of Institutions		Assets	Share of Total System Assets in Institutions with Assets >$10 Billion	
	OCC Banks	OCC Thrifts	All OCC-Supervised	2010	90.5%
2010 to 2015	-23%	-15%	+28%	2015e	94.0%

e = estimated

Loan demand has been growing more slowly than usual for an economic recovery, in part because the economy as a whole has been growing much slower than as is usual after a recession. The combination of recession and financial crisis has already caused widespread deleveraging among both households and firms, cutting into the demand for loans. Although business capital spending continues to improve, banks have not seen much increase in commercial loan demand, as many firms have accumulated cash reserves, and even medium-size firms can now borrow long-term at low rates in bond markets. Most expect these trends to continue, limiting the pace of bank lending and asset growth.

Large national banks and federal savings associations will continue to dominate the industry. Financial institutions with over $10 billion in assets now account for over 90 percent of system assets. This share has been increasing, and the trend is expected to continue. There are 64 OCC-supervised institutions of this size that exist now; most observers expect this number to fall as consolidation continues.

Credit losses rose sharply during the financial crisis and recession, but are now receding for most loan categories. To shore up their positions in the aftermath of the crisis, many banks raised additional capital. The result is a stronger banking system than existed two years ago. Risks to the system include continued problems in the credit markets, and a slower than normal economic recovery, which could lead to lower than expected growth in revenues.

Section 2 – Budget Adjustments and Appropriation Language

2.2 – Operating Levels Table

Dollars in Thousands

Office of Comptroller of the Currency	FY 2011 Actual/1	FY 2012 Estimated/2/3	FY 2013 Estimated/2
FTE	**3,150**	**3,822**	**3,898**
Object Classification			
11.1 - Full-time permanent	$382,144	$472,904	$493,086
11.3 - Other than full-time permanent	9,508	12,030	12,545
11.5 - Other personnel compensation	2,729	2,750	2,867
11.9 Personnel Compensation (Total)	**$394,381**	**$487,684**	**$508,498**
12.0 - Personnel benefits	173,529	302,027	229,027
13.0 - Benefits for former personnel	263	195	195
21.0 - Travel and transportation of persons	48,165	65,062	68,285
22.0 - Transportation of things	2,214	3,790	2,186
23.1 - Rental payments to GSA	2,705	2,773	3,650
23.2 - Rental payments to others	38,511	49,845	65,611
23.3 - Communication, utilities, and misc charges	8,297	12,607	16,594
24.0 - Printing and reproduction	745	862	800
25.1 - Advisory and assistance services	30,334	42,148	40,158
25.2 - Other services	16,600	24,083	22,946
25.3 - Other purchases of goods and services from Govt. accounts	9,599	13,485	12,848
25.4 - Operation and maintenance of facilities	5,204	16,969	16,168
25.7 - Operation and maintenance of equip	59,646	73,055	69,607
26.0 - Supplies and materials	7,786	8,928	9,103
31.0 - Equipment	18,917	32,801	21,841
32.0 - Land and structures	7,896	89,535	9,953
42.0 - Insurance claims and indemnities	202	230	230
Total Budget Authority	**$824,994**	**$1,226,079**	**$1,097,700**
Budget Activities:			
Supervise	707,845	1,052,200	942,000
Regulate	95,699	142,800	127,870
Charter	21,450	31,079	27,830
Total Budget Authority	**$824,994**	**$1,226,079**	**$1,097,700**

(1) Effective July 21, 2011, the OCC assumed responsibility for regulating federal savings associations.
(2) FY 2012 and FY 2013 estimates include the cost of regulating the national banks and federal savings associations.
(3) FY 2012 budget estimate contains one-time costs attributable to the Dodd-Frank Act.

2B – Appropriations Language and Explanation of Changes
The OCC receives no appropriations from Congress.

2C – Legislative Proposals
The OCC has no legislative proposals.

Section 3 – Budget and Performance Report and Plan

3A – Supervise
($1,052,200,000 from reimbursable resources):
An effective supervision program is the cornerstone of the OCC's activities that support its strategic goals. Specifically, the Supervise program consists of ongoing supervision and enforcement activities that directly support the OCC's strategic goals to 1) ensure that each national bank and federal savings association is operating in a safe and sound manner and is complying with applicable laws, rules, and regulations relative to the financial institution and the customers and communities it serves, and 2) provide fair access to financial services and fair treatment of customers. Assessing the condition and risk management practices of national banks and federal savings associations, and requiring corrective actions when weaknesses are found, directly supports Treasury's goal of repairing and reforming the financial system.

The Supervise program includes national bank and federal savings association examinations and enforcement activities; resolution of disputes through the national bank and federal savings association appeals process; ongoing monitoring of national banks and federal savings associations; and analysis of systemic risks and market trends in the national banking system or groups of national banks and federal savings associations, the financial services industry, and the economic and regulatory environment.

The goal owner for this budget activity is the Acting Comptroller of the Currency, John Walsh.

Description of Performance:
Percentage of National Banks and Federal Savings Associations with Composite CAMELS Rating of 1 or 2
The composite CAMELS (**C**apital adequacy, **A**sset quality, **M**anagement, **E**arnings, **L**iquidity, and **S**ensitivity to market risk) rating reflects the overall condition of a bank or savings association. 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 national bank or federal savings association. The rating scale is 1 through 5 of which 1 is the highest rating granted. These CAMELS ratings are assigned at the completion of every supervisory cycle or when there is a significant event leading to a change in CAMELS.

The OCC has established a target outcome measure that 90 percent of the institutions under its supervision have a composite CAMELS rating of 1 or 2. Such a rating is consistent with the strategic goal of a safe and sound banking system, that banks maintain adequate capital and liquidity and have strong risk management practices. For FY 2011, 75 percent of national banks earned composite CAMELS ratings of either 1 or 2. Beginning with FY 2012, federal savings associations will be included in the performance measure. The increase in the number of national banks with less favorable composite CAMELS ratings is not unexpected at this stage of the credit cycle and reflects impaired asset quality and earnings that is affecting many institutions. Degradation in CAMELS can also reflect weaknesses in risk management systems that need corrective action. Consistent with Treasury's goal of repairing and reforming the financial system and supporting the recovery of the housing market, the OCC has instructed bank examiners to identify and seek corrective action at an earlier stage to address potential problems or weaknesses. The OCC's primary focus is to ensure that CAMELS ratings are an accurate reflection of each institution's current financial position and thus the OCC would not take action to prematurely restore a favorable CAMELS rating even though the current distribution of ratings is below the target. As national bank or federal savings association performance and asset quality improves and directed corrective actions are implemented, the OCC expects CAMELS ratings to gradually improve.

Percentage of National Banks and Federal Savings Associations that are considered Well Capitalized
The Federal Deposit Insurance Act established a system 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. The OCC has established a target outcome measure that 95 percent of national banks and federal savings associations will meet or exceed the well capitalized threshold. Beginning in FY 2012, federal savings associations will be included in the performance measure.

The economic environment and resulting increase in problem assets placed a strain on some banks' capital buffers that has resulted in levels below the OCCs' target performance measure. The OCC works closely with problem national banks and federal savings associations to develop rehabilitation plans. Such plans typically include directives to improve or restore capital levels. These efforts, combined with a more stable operating environment, have resulted in improvement in this performance goal since FY 2009. For FY 2011, 93 percent of national banks were classified as well capitalized. Beginning in FY 2012, federal savings associations will be included in the performance measure.

More broadly, the OCC is working with other regulators both domestically and internationally to strengthen capital standards and improve credit risk management practices. These actions mean that the standards for meeting the "well capitalized" threshold will become higher and may require some national banks and federal savings associations to further strengthen their capital bases. To help prepare financial institutions to meet these higher standards, the OCC and other federal regulators will publish proposed changes for notice and comment and will likely propose that the higher standards be phased in over a period of time.

Percentage of National Banks and Federal Savings Associations with Consumer Compliance Rating of 1 or 2
To ensure fair access to financial services and fair treatment of national bank and federal savings association customers, the OCC evaluates an institution'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 evaluating significant consumer compliance factors inherent in an institution. Each institution 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 of which 1 is the highest rating granted. National banks and federal savings associations continue to show

strong compliance with consumer protection regulations with 94 percent of national banks earning a consumer compliance rating of either 1 or 2 for FY 2011. Under the Dodd-Frank Act, this rating will now change to those institutions with total assets of no more than $10 billion for which the OCC has enforcement and supervisory authority. Beginning in FY 2012 federal savings associations will be included in the performance measure and the target for FY 2012 and 2013 will remain unchanged at 94 percent.

Rehabilitated National Banks and Federal Savings Associations as a percentage of problem of National Banks and Federal Savings Associations One Year Ago
Problem national banks and federal savings associations ultimately can reach a point at which rehabilitation is no longer feasible. The OCC's early identification and intervention with problem financial institutions can lead to a successful remediation. For FY 2011, 22 percent of national banks with composite CAMELS ratings of 3, 4, or 5 one year ago have improved their ratings to either 1 or 2 this year. As with the other measures, this target has been adversely affected by the underlying economic conditions facing the banking industry and is below the OCC's target of 40 percent. The number of serious problem financial institutions, where successful resolution is more difficult, has increased. In addition, the sharp contraction in certain segments of the economy, including the real estate sector, has resulted in a more rapid deterioration in some institutions' financial condition. Under the Dodd-Frank Act, the OCC assumed responsibility on July 21, 2011 for the supervision of federal savings associations. Federal savings associations will be incorporated into this measure in the future.

As has been previously noted, the OCC is taking a number of steps through its Supervise and Regulate programs to repair and make national banks and federal savings associations more resilient to financial stresses and to identify and obtain corrective action at an earlier stage, when problems can be most successfully addressed. These efforts include heightened capital and liquidity standards and increased emphasis on the need for stress testing, designed to provide financial institutions with stronger capital buffers to withstand unforeseen events. These are multi-year efforts that will continue in FY 2012. The OCC is also updating its guidance and strengthening its expectations with regard to credit concentrations. Such concentrations were a major contributing factor to many, if not most of the recent problem national banks reflected in this measure. As these efforts progress and the operating condition for the financial sector improves, this performance measure is likely to improve to the target level.

Total OCC Costs Relative to Every $100,000 in National Bank and Federal Savings Association Assets Regulated
Beginning in FY 2006, the OCC implemented a performance measure that reflects the efficiency of its operations while meeting the increasing supervisory demands of a growing and more complex national banking system.

The OCC costs are those reported as total program costs on the annual audited Statement of Net Cost. National bank and federal savings association assets are those reported quarterly by national banks and federal savings associations (effective March 2012) on the Reports of Condition and Income. Total national bank and federal savings association assets represent the growth and complexity of the financial institutions under the jurisdiction of the OCC. 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 national banks and federal savings associations benefits all national bank and federal savings association customers. The OCC plans to retain this target threshold for FY 2012 and 2013 and will continue its efforts to ensure that resources are used prudently and that programs are carried out in a cost effective manner. In FY 2011, the OCC expended $8.49 per $100,000 in national bank assets regulated compared to the target of $9.22. Beginning in FY 2012, federal savings associations will be included in the performance measure.

3.1.1 – Supervise Budget and Performance Report and Plan

Dollars in Thousands

Supervise Budget Activity Resource Level	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual/1	FY 2012 Estimate/2	FY 2013 Estimate/2
Reimbursable Resources	$471,882	$528,622	$565,921	$597,859	$618,254	$707,845	$1,052,200	$942,000
Total Resources	**$471,882**	**$528,622**	**$565,921**	**$597,859**	**$618,254**	**$707,845**	**$1,052,200**	**$942,000**
Budget Activity Total	**$471,882**	**$528,622**	**$565,921**	**$597,859**	**$618,254**	**$707,845**	**$1,052,200**	**$942,000**

Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual/3	FY 2012 Target/4	FY 2013 Target/4
Percentage of National Banks and Federal Savings Associations with Composite CAMELS Rating of 1 or 2	95.0	96.0	92.0	82.0	70.0	75.0	90.0	90.0
Percentage of National Banks and Federal Savings Associations that are considered Well Capitalized	99.0	99.0	99.0	86.0	90.0	93.0	95.0	95.0
Percentage of National Banks and Federal Savings Associations with Consumer Compliance Rating of 1 or 2	94.0	97.0	97.0	97.0	95.0	94.0	94.0	94.0
Rehabilitated National Banks and Federal Savings Associations as a percentage of problem of National Banks and Federal Savings Associations One Year Ago (CAMEL 3, 4, or 5)	46.0	52.0	47.0	29.0	23.0	22.0	40.0	40.0
Total OCC Costs Relative to Every $100,000 in National Bank and Federal Savings Association Assets Regulated ($)	8.57	8.89	8.39	8.81	9.28	8.49	9.22	9.22

Key: DISC - Discontinued and B – Baseline

(1) Effective July 21, 2011, the OCC assumed responsibility for regulating federal savings associations.
(2) FY 2012 and FY 2013 estimates include the cost of regulating the national banks and federal savings associations.
(3) FY 2011 actual data through September 30, 2011 does not include the federal savings associations.
(4) FY 2012 and FY 2013 targets are subject to revision based on the impact of integrating OTS functions relating to federal savings associations into the OCC and the transfer of designated OCC functions into the CFPB.

3B – Regulate
($142,800,000 from reimbursable resources):
The Regulate program supports the OCC's strategic goals of 1) assuring the safety and soundness of institutions subject to its jurisdiction; 2) fair access to financial services and fair treatment of national bank and federal savings association customers; and 3) a flexible legal and regulatory framework. Specifically, the Regulate program consists of ongoing activities that result in the establishment of regulations, policies, operating guidance, and interpretations of general applicability to national banks and federal savings associations. These regulations, policies, and interpretations may establish system-wide standards, define acceptable national banking and federal savings association practices, provide guidance on risks and responsibilities facing national banks and federal savings associations, or prohibit (or restrict) national banking or federal savings association practices deemed to be imprudent or unsafe. They also establish standards for ensuring fair access to financial services and fair treatment of national bank and federal savings association customers. This program includes the establishment of examination policies and handbooks; interpretations in administrative, judicial, and congressional proceedings; and establishing the applicable legal and supervisory framework for new financial services and products.

Specific activities undertaken in FY 2011 as part of this program were described earlier and included the issuance of various supervisory guidance on real estate appraisals, risk model management, Internet Banking, and Counterparty Credit Risk Management. Significant resources were also spent on various Dodd-Frank rulemakings, including those pursuant to section 171(b) regarding minimum risk-based capital requirements; section 742(c)(2) related to certain off-exchange foreign currency transactions with retail customers; section 939A pertaining to removing the reliance on credit ratings; section 956 pertaining to incentive-based compensation arrangements; section 941 pertaining to risk retention requirements and associated minimum underwriting standards for asset securitizations; and sections 731 and 764 related to capital requirements and margin requirements on certain swap transactions. In FY 2012 and 2013, the OCC will continue to support operations of the FSOC and issue Dodd-Frank rulemakings, as well as complete the comprehensive integration of OTS rules into the OCC regulatory structure. This effort will be accomplished through a robust internal project management system and consultative and joint rulemaking processes with other regulatory entities.

The goal owner for this budget activity is the Acting Comptroller of the Currency, John Walsh.

3.1.2 – Regulate Budget and Performance Report and Plan

Dollars in Thousands

Regulate Budget Activity Resource Level	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual/1	FY 2012 Estimate/2	FY 2013 Estimate/2
Reimbursable Resources	$70,992	$91,296	$87,583	$94,511	$97,735	$95,699	$142,800	$127,870
Total Resources	**$70,992**	**$91,296**	**$87,583**	**$94,511**	**$97,735**	**$95,699**	**$142,800**	**$127,800**
Budget Activity Total	**$70,992**	**$91,296**	**$87,583**	**$94,511**	**$97,735**	**$95,699**	**$142,800**	**$127,870**

(1) Effective July 21, 2011, the OCC assumed responsibility for regulating federal savings associations.
(2) FY 2012 and FY 2013 estimates include the cost of regulating the national banks and federal savings associations.

3C – Charter

($31,079,000 from reimbursable resources):
The Charter program consists of ongoing activities that result in the chartering of national banks and federal savings associations and the evaluation of the permissibility of structures and activities of national banks and federal savings associations and their subsidiaries. This includes the review and approval of new national bank and federal savings association charters, federal branches and agencies, mergers, acquisitions, conversions, business combinations, corporate reorganizations, changes in control, operating subsidiaries, branches, relocations, and subordinated debt issuances. By supporting the entry of new products and institutions into the financial system in a manner consistent with safety and soundness, the Charter program supports the OCC's strategic goals of assuring safety and soundness while allowing national banks and federal savings associations to offer a full competitive array of financial services.

The goal owner for this budget activity is the Acting Comptroller of the Currency, John Walsh.

Description of Performance:
Percentage of Licensing Applications and Notices Completed within Established Time Frames
The OCC's timely and effective approval of corporate applications contributes to the nation's economy by enabling national banks and federal savings associations 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 or federal savings association 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. For FY 2011, the OCC completed 97 percent of national bank applications and notices within the time frame. The OCC will continue to meet its Charter program goals by providing staff training, coordination between charter and supervisory staff on safety and soundness and compliance matters, issuance of updated procedures, and maintaining an emphasis on accessibility and early consultation with national bank and federal savings association organizers and others proposing national bank and federal savings association structure changes.

3.1.2 – Charter Budget and Performance Report and Plan

Dollars in Thousands

Charter Budget Activity Resource Level	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual/1	FY 2012 Estimate/2	FY 2013 Estimate/2
Reimbursable Resources	$13,952	$18,515	$20,212	$23,628	$24,434	$21,450	$31,079	$27,830
Total Resources	**$13,952**	**$18,515**	**$20,212**	**$23,628**	**$24,434**	**$21,450**	**$31,079**	**$27,830**
Budget Activity Total	**$13,952**	**$18,515**	**$20,212**	**$23,628**	**$24,434**	**$21,450**	**$31,079**	**$27,830**

Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual/3	FY 2012 Target/4	FY 2013 Target/4
Percentage of Licensing Applications and Notices Completed within Established Timeframes	94.0	96.0	95.0	95.0	96.0	97.0	95.0	95.0

Key: DISC - Discontinued and B – Baseline

(1) Effective July 21, 2011, the OCC assumed responsibility for regulating federal savings associations.
(2) FY 2012 and FY 2013 estimates include the cost of regulating the national banks and federal savings associations.
(3) FY 2011 actual data through September 30, 2011 does not include the federal savings associations.
(4) FY 2012 and FY 2013 targets are subject to revision based on the impact of integrating OTS functions relating to federal savings associations into the OCC and the transfer of designated OCC functions into the CFPB.

Detailed information about each performance measure, including definition, verification and validation is available.

Section 4 – Supplemental Information

4A – Capital Investment Strategy

The OCC's Information Technology (IT) strategic plan aligns information technology initiatives and investments to the OCC's core mission. In addition, the plan addresses key legislative requirements for the integration of the OCC with the OTS, including both the integration of OTS applications and capabilities and disposition of redundant or end-of-lifecycle applications, capabilities, and services.

The IT strategic plan is implemented through the budget formulation process and the Capital Planning and Investment Control (CPIC) process. These processes ensure that all IT investments are aligned with the OCC's mission, goals, objectives, and target enterprise architecture before a project is funded. The capital planning process reviews and prioritizes detailed business cases to promote technology reuse, to capitalize on enterprise opportunities, and to reduce redundant and obsolete capabilities and services. Investment evaluation control actions ensure that the OCC IT strategy has adequate funding and staff resources to address IT investment priorities, and considers risk mitigation strategies for IT investments that are not meeting stated cost, time, and performance goals. Performance metrics are linked to the delivery, alignment, and achievement of the OCC strategic program objectives. Cost effectiveness for each investment is evaluated through regular benchmarking studies, featuring peer group organizations. Key metrics used to evaluate infrastructure include availability, reliability, utilization, defects, and customer satisfaction.

FY 2012 and 2013 Plans

The OCC has three major IT initiatives in FY 2012 and 2013.

Mainframes & Servers Support Services (MSSS)

The MSSS supports the OCC's mainframe computer operations and maintenance (O&M). Support services include data center systems O&M, mainframe and server O&M, and disaster recovery testing.

As part of this initiative, the OCC is consolidating and relocating the data center infrastructure to a third-party co-location facility commencing in FY 2012, with an anticipated completion in FY 2013. Based upon detailed alternatives analysis conducted in FY 2011, it was determined that the OCC's main data center, located in Landover, MD, cannot meet the capacity requirements for growth forecasts. Relocation of the OCC's data center will provide the OCC with access to basic facilities and environmental services (floor space, power cooling, network and physical security) while supporting mandates for data center consolidation from Treasury and the Office of Management and Budget (OMB). The facility will provide redundant services and capabilities and can be managed remotely by the OCC infrastructure and operations staff with minimal new technology or process enhancements.

Telecommunications Services and Support (TSS)

The TSS includes telecommunications wide area network and local area network infrastructure. Remote access to the OCC systems is facilitated via a virtual private network, dial-in, and cellular wireless access using two-factor authentication. This investment also includes messaging services supporting highly mobile bank examiners and the OCC staff.

End User Services and Support (EUSS)
The EUSS includes help desk/customer service support, personal computer hardware and software O&M, desktop engineering and image management, and asset management.

A summary of capital investment resources, including major information technology and non-technology investments is available.