

Office of the Comptroller of the Currency (OCC)

Program Summary by Budget Activity

Dollars in Thousands

| Budget Activity | FY 2012 | FY 2013 | FY 2014 | FY 2012 TO FY 2014 | |
|---------------------------------|--------------------|--------------------|--------------------|--------------------|---------------|
| | Actual | Estimated | Estimated | \$ Change | % Change |
| Supervise | \$924,417 | \$877,800 | \$895,350 | (\$29,067) | -3.14% |
| Regulate | \$125,416 | \$119,200 | \$121,580 | (\$3,836) | -3.06% |
| Charter | \$27,338 | \$26,000 | \$26,520 | (\$818) | -2.99% |
| Total Cost of Operations | \$1,077,171 | \$1,023,000 | \$1,043,450 | (\$33,721) | -3.13% |
| FTE | 3,656 | 3,782 | 3,782 | 126 | 3.45% |

Summary

The 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. Pursuant to Title III of the Dodd-Frank Act, on July 21, 2011 the OCC assumed the responsibility for the supervision of federal savings associations and rulemaking authority for all federal savings associations.

The OCC supervises 1,295 national bank charters, 48 federal branches of foreign banks, and 546 federal savings associations (including 194 mutual institutions) in the United States with total assets of approximately \$10 trillion as of December 31, 2012. The average size and complexity of financial institutions continue to grow. This creates increasing and diverse challenges for the OCC.

The OCC has established four 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. To achieve its goals and objectives, the OCC organizes its activities under three programs: 1) Supervise, 2) Regulate, and 3) Charter. Effective supervision, and a comprehensive regulatory framework, are the key tools that 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 entrants into the financial services sector while ensuring that they 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 its supervisory and regulatory programs and activities. A stronger and more resilient banking system directly supports three out of five of the Department of the Treasury's (Treasury) strategic goals: 1) 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; and 3) Protect our national security through targeted financial actions.

Through on-site examinations, the OCC assesses whether national banks and federal savings associations appropriately identify, account for, and follow prudent strategies for problem assets; and maintain 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 are 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.

Explanation of Budget Activities

Supervise (\$877,800,000 *from revenue/offsetting collections*)

The Supervise program consists of ongoing supervision and enforcement activities undertaken to ensure that each national bank and federal savings institution 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. Included are examinations and enforcement activities; resolution of disputes through a formal 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, the financial services industry, and the economic and regulatory environment.

Regulate (\$119,200,000 *from revenue/offsetting collections*)

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 banking practices, provide guidance on risks and responsibilities facing national banks and federal savings associations, or prohibit (or restrict) banking practices deemed to be imprudent or unsafe. This includes the establishment of examination policies, handbooks, and interpretations for examiners as well as representation of the OCC's regulatory authorities and interpretations in administrative, judicial, and congressional hearings.

Charter (\$26,000,000 from revenue/offsetting collections)

The Charter program consists of ongoing activities that result in the chartering of national banks and federal savings institutions as well as the evaluation of the permissibility of structures and activities of banks, federal savings associations, and their subsidiaries. This includes the review and approval of new national bank and federal saving association charters, federal branches and agencies,

mergers, acquisitions, conversions, business combinations, corporate reorganizations, changes in control, operating subsidiaries, branches, relocations, and subordinated debt issues.

Legislative Proposals

The OCC has no legislative proposals.

OCC Performance by Budget Activity

| Budget Activity | Performance Measure | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 |
|-----------------|---|---------|---------|---------|---------|---------|
| | | Actual | Actual | Actual | Target | Target |
| Supervise | Percentage of National Banks and Federal Savings Associations that are Categorized as Well Capitalized | 91 | 93 | 92 | 95 | 95 |
| Supervise | Percentage of National Banks and Federal Savings Associations with Consumer Composite Rating CAMELS of 1 or 2 | 72 | 75 | 76 | 90 | 90 |
| Supervise | Rehabilitated National Banks and Federal Savings Associations as a Percentage of Problem National Banks On Year Ago (CAMEL 3,4, or 5) | 22 | 22 | 27 | 40 | 40 |
| Supervise | Percent of National Banks and Federal Savings Associations with Consumer Compliance Rating of 1 or 2 | 96 | 96 | 93 | 94 | 94 |
| Charter | Percentage of Licensing Applications and Notices Completed within Established Timeframes | 96 | 97 | 98 | 95 | 95 |

Key: DISC - Discontinued and B - Baseline

Description of Performance

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. Through September 30, 2012, 92 percent of national banks and federal savings associations were classified as well capitalized, which is slightly below the target of 93 percent for FY 2012. National banks’

and federal savings associations’ capital has remained at this consistently high level for the past several years.

The composite CAMELS (Capital adequacy, Asset quality, Management, Earnings, Liquidity, and Sensitivity to market risk) 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.

The rating scale is 1 through 5 of which 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. Through September 30, 2012, 76 percent of national banks and federal savings associations earned composite CAMELS rating of either 1 or 2.

Problem banks ultimately can reach a point at which rehabilitation is no longer feasible. The OCC's early identification 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, 23 percent of 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 other measures, this target benchmark has been adversely affected by the underlying economic conditions facing the banking industry.

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 and federal savings associations continue to show strong compliance with consumer protection regulations with 93 percent earning a

consumer compliance rating of either 1 or 2 through September 30, 2012.

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 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 98 percent of applications and notices within the time standard through September 30, 2012.

All FY 2011 performance measures do not include federal savings associations. However, beginning with FY 2012, federal savings associations and former OTS operations were incorporated into OCC's performance measures.