Office of the Comptroller of the Currency

FY 2016 President's Budget

February 2, 2015

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Section 1 – Purpose

1A – Mission Statement

To ensure that national banks and federal savings associations operate in a safe and sound manner, provide equal access to financial services, treat customers fairly, and comply with applicable laws and regulations.

1.1 – Resource Detail Table

Dollars in Thousands

Office of the Comptroller of the Currency	FY 2014		FY 2015		FY 2016		FY 2015 to FY 2016			
Budgetary Resources	Estimated		Estimated		Estimated		$ Change		% Change	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Revenue/Offsetting Collections										
Assessments	0	1,007,316	0	1,106,200	0	1,140,500	0	34,300	.00	3.10%
Interest	0	15,831	0	17,100	0	17,400	0	300	.00	1.75%
Other Income	0	15,703	0	18,600	0	18,800	0	200	.00	1.08%
Unobligated Balances from Prior Years	0	1,076,391	0	1,101,432	0	1,152,632	0	51,200	.00	4.65%
Total Revenue/Offsetting Collections		**2,115,241**		**2,243,332**		**2,329,332**		**86,000**		**3.83%**
Expenses/Obligations										
Supervise	3,412	889,111	3,472	956,544	3,472	975,675	0	19,131	N/A	2.00%
Regulate	405	105,436	412	113,433	412	115,702	0	2,269	N/A	2.00%
Charter	74	19,262	75	20,723	75	21,137	0	414	N/A	2.00%
Total Expenses/Obligations	**3,891**	**1,013,809**	**3,959**	**1,090,700**	**3,959**	**1,112,514**	**0**	**21,814**	**N/A**	**2.00%**
Net Results		**1,101,432**		**1,152,632**		**1,216,818**		**64,186**		**5.57%**

1B – Vision, 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 the OCC the responsibility for the supervision of federal savings associations and rulemaking authority for all savings associations.

As of September 30, 2014, the OCC supervised 1,152 national bank charters and 49 federal branches of foreign banks in the United States with total assets of approximately $10.2 trillion, and 462 federal savings associations (which include 174 mutual institutions) with total assets of approximately $701 billion. In total, the OCC supervises about $10.9 trillion in financial institution assets.

OCC Vision, Core Values, and Goals

Vision

The OCC is a preeminent bank supervisor that adds value through proactive and risk based supervision; is sought after as a source of knowledge and expertise; and promotes a vibrant and diverse banking system that benefits consumers, communities, businesses, and the U.S. economy.

The OCC culture is flexible, accountable, strategy-based, and data-driven. The OCC team of dedicated professionals uses substantive expertise, sound judgment, and comprehensive experience to assess the financial condition, management, and regulatory compliance of national banks and federal savings associations to ensure a vibrant and diverse banking system that benefits all Americans.

Core Values

- Integrity
- Expertise
- Collaboration
- Independence

Goals

The OCC has established three goals outlined in its strategic plan that help support a strong economy for the American public: 1) A vibrant and diverse system of national banks and federal savings associations that supports a robust U.S. economy; 2) "One OCC" focused on collaboration, innovation, coordination, and process efficiency; 3) The OCC is firmly positioned to continue to operate independently and effectively into the future. 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 of the Department of the Treasury's FY 2014-2017 (Treasury) strategic goals: 1) Promote domestic economic growth and stability while continuing reforms of the financial system; 4) Safeguard the financial system and use financial measures to counter national security threats; and 5) Create a 21st-century approach to government by improving efficiency, effectiveness, and customer interaction.

The OCC's nationwide staff of bank examiners conducts on-site reviews of banks and provides sustained supervision of these institutions' operations. Examiners analyze asset quality, capital adequacy, earnings, liquidity, and sensitivity to market risk for all banks, and assess compliance with federal consumer protection laws and regulations[1]. Examiners also evaluate management's ability to identify and control risk, and assess banks' performance in meeting the credit needs of the communities in which they operate, pursuant to the Community Reinvestment Act.

In supervising banks, the OCC has the power to:

- Examine banks;
- Approve or deny applications for new charters, branches, capital, or other changes in corporate or banking structure;
- Take supervisory and enforcement actions against banks that do not comply with laws and regulations or that otherwise engage in unsafe or unsound practices;
- Remove and prohibit officers and directors, negotiate agreements—both formal (i.e., public)
- and informal (i.e., non-public)—to change banking practices, and issue cease-and-desist orders as well as Civil Money Penalties (CMP); and
- Issue rules and regulations, legal interpretations, supervisory guidance, and corporate decisions governing investments, lending, and other practices.

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 influences the banking system using several means: 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 the attention of the financial institution's board and management to informal and formal enforcement actions – that are used to obtain corrective action to remedy weaknesses, deficiencies, or violations of law.

In fiscal year (FY) 2014, the OCC published on its web site enforcement actions against regulated institutions, including the imposition of CMPs. The OCC continues to be actively involved in the residential foreclosure oversight process to ensure that all foreclosures are handled consistent with regulatory requirements. In addition, over the past year, the OCC took significant enforcement actions to address Bank Secrecy Act/Anti-Money Laundering (BSA/AML) violations, unfair or deceptive or abusive acts or practices, and failure to properly manage vendors engaged in deceptive debt collection practices.

The OCC's supervisory activities in FY 2014 continued to focus 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' risk management and corporate governance practices. Specific areas of supervisory activities included: 1) evaluating the effectivness of credit risk rating systems, and

[1] The Consumer Financial Protection Bureau assesses compliance with Federal consumer financial laws as defined under Title X of the Dodd Frank Wallstreet Consumer Protection Act for banks with assets over $10 billion.

the adequacy of underwriting standards and allowance for loan and lease reserve methodologies; 2) assessing banks' strategic and business making decision processes to determine that banks comprehensively identify, assess and report all risks arising from cost reduction programs, use of third party vendors, and expansion into new products or services; 3) evaluating banks' interest rate risk exposures and model assumptions; and 4) identifying and controlling cyber-security threats.

Operational risk management – managing the risk of loss due to failures of people, processes, systems, and external events – has become an area of heightened risk and supervisory attention. Strong enterprise risk management processes have been and will continue to be a point of emphasis, particularly at larger institutions. In addition, the OCC continues to assess and 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 2014:

- *Heightened Standards for Large Banks:* The OCC issued final guidelines that set forth new standards of "heightened expectations" to strengthen the governance and risk management practices of large national banks and federal savings associations and to enhance the agency's supervision of those institutions. The standards, in the form of guidelines under 12 Code of Federal Register (CFR) part 30 of the agency's regulations, set forth the minimum expectations for the design and implementation of an institution's risk governance framework and provide minimum standards for oversight of that framework by the board of directors. The standards embody and codify lessons learned from the financial crisis that the OCC has been applying to large banks. The guidelines apply to any insured national bank, insured federal savings association, or insured federal branch of a foreign bank, with average total consolidated assets of $50 billion or more. The guidelines also apply to an OCC-regulated institution with less than $50 billion in average total consolidated assets if that institution's parent company controls at least one other covered institution.

- *Large and Midsize Bank Supervision Peer Review:* An international peer review team, consisting of former senior supervisory personnel from Australia, Canada, Singapore, and the International Monetary Fund, reviewed the OCC's approach to the supervision of large and mid-sized institutions. The assessment included briefings with senior OCC staff and meetings with bankers and non-OCC regulators, and was based on the team's understanding of successful supervisory practices in their respective countries. This team provided seven key recommendations to strengthen the supervisory process. Two working groups were formed (Policy Enhancement and Process Improvement) to review the recommendations in the Peer Review report and develop specific proposals based on the recommendations. Employee feedback was considered by the working groups prior to providing their final draft proposals to the Comptroller and the OCC Executive Committee, with detailed action plans to implement those proposals. Work is underway to implement the agreed upon actions.

- *Independent Foreclosure Review (IFR):* The OCC and the Federal Reserve Board (FRB) previously amended consent orders against 15 mortgage servicers for deficient practices in mortgage servicing and foreclosure processing. During FY 2014, servicers covered by mortgage servicing and foreclosure related consent orders continued to take action to correct deficiencies in mortgage servicing and foreclosure processes as directed by the OCC and FRB enforcement actions. While servicers reported that much of that work was complete, federal examiners continued the process of verifying and testing that work. In addition, pursuant to the amended consent orders that resolved the IFR, nearly $3.4 billion in payments to eligible borrowers under the settlement funds supervised by the OCC and FRB have been cashed or deposited through the end of the fourth quarter of FY 2014, which is approximately 86 percent of total amount of settlement funds. In addition, over $11 million in remediation payments to borrowers of the one OCC-regulated institution that completed the IFR have been cashed or deposited by the end of the fourth quarter of FY 2014, which is approximately 88 percent of the total expected remediation.

- *Final Rules to Implement the "Volcker Rule":* The OCC worked collaboratively with the FRB, the Federal Deposit Insurance Corporation (FDIC), the Securities and Exchange Commission (SEC), and the Commodity Futures Trading Commission (CFTC) to adopt rules implementing section 619 of the Dodd-Frank Act, commonly referred to as the Volcker Rule. The final rules generally prohibit banking entities from 1) engaging in short-term proprietary trading of securities, derivatives, commodity futures and options on these instruments for their own account and 2) owning, sponsoring, or having certain relationships with hedge funds or private equity funds, referred to as 'covered funds.' Transitional examination procedures were also implemented to assist examiners in assessing how financial institutions plan to conform to the rule.

- *Third Party Relationship Guidance*: To address concerns regarding the quality of risk management on the growing volume, diversity, and complexity of banks' third-party relationships, both foreign and domestic, the OCC issued OCC Bulletin 2013 – 29, "Third Party Relationships: Risk Management Guidance". This guidance provides more comprehensive instructions for banks to ensure these relationships and activities are conducted in a safe and sound manner.

- *Guidance on Stress Testing Practices:* In October 2012, the OCC issued a final rule that implements section 165(i) of the Dodd-Frank Act that requires certain companies to conduct annual stress tests. Specifically, this rule requires national banks and federal savings associations with total consolidated assets over $10 billion (covered institutions) to conduct an annual stress test as prescribed by the rule. In March 2014, the OCC, along with the FDIC and FRB, issued final guidance describing supervisory expectations for stress tests conducted by financial companies with total consolidated assets between $10 billion and $50 billion. These companies were required to perform their first stress test by March 31, 2014.

- *Guidance on Deposit Advance Products:* In December 2013, the OCC issued final guidance on the use of deposit advance products. A deposit advance product is a small-dollar, short-term loan that a bank makes available to a customer whose deposit account reflects recurring direct deposits. The guidance addresses how any bank offering these products may do so in a safe and sound manner without engaging in practices that would inappropriately increase credit, compliance, legal, and reputation risks to the institution.

- *Guidance on Consumer Debt Sales:* In August 2014, the OCC issued guidance on the application of consumer protection requirements and safe and sound banking practices to consumer debt-sale arrangements with third parties (e.g., debt buyers) that intend to pursue collection of the underlying obligation.

- *Guidance on the Use of Social Media:* Technological advancements allow financial institutions to use social media in a variety of ways, including marketing; facilitating applications for new accounts, products, or services; and engaging with existing and potential customers. Because this form of customer interaction tends to be both informal and dynamic, and may occur in a less secure environment, it can present unique risks to financial institutions. In December 2013, the OCC, in collaboration with the other members of the Federal Financial Institutions Examination Council (FFIEC), published final supervisory guidance to help financial institutions identify potential risks to ensure they are aware of their responsibilities to address these risks within their overall risk management program.

- *Enhanced Supplemental Leverage Ratio Requirements:* In April 2014, the OCC, along with the FDIC and FRB adopted a final rule to strengthen the supplementary leverage ratio standards for the largest, most systemically significant U.S. banking organizations. The final rule applies to any Bank Holding Company (BHC) with more than $700 billion in consolidated total assets or $10 trillion in assets under custody (covered BHC) and any Insured Depository Institution (IDI) subsidiary of these covered BHCs (covered IDI). Concurrent with this final rule, the agencies issued a proposal to revise the calculation of total leverage exposure (the denominator of the supplementary leverage ratio) in a manner generally consistent with revisions to the international leverage ratio framework published by the Basel Committee on Banking Supervision. A final rule adopting these proposed changes was issued in September 2014.

- *Risk Management of Home Equity Lines of Credit (HELOC) Approaching the End-of-Draw Periods*: In conjunction with the FFEIC and Conference of State Bank Regulators, the OCC issued guidance describing core operating principles that should govern management's oversight of HELOCs nearing their end-of-draw periods. The guidance also describes components of a risk management approach that promotes an understanding of potential exposures and consistent, effective responses to HELOC borrowers who may be unable to meet contractual obligations, and highlights concepts related to financial reporting for HELOCs.

- *The OCC National Risk Committee's Semi-Annual Risk Perspectives:* The OCC continued to produce this informative semi-annual report that highlights the OCC's perspectives on key issues and risks that pose threats to the safety and soundness of banks. The report draws upon the findings of the OCC's supervisory activities and analyses of the banking industry.

- *Strengthening Cyber-Security Risk Management:* The OCC created and filled a new position, Senior Infrastructure Officer, whose focus is cyber-security policy for the federal banking system. Actions taken to improve the cyber-security of the federal banking system include a webinar for community banks, the issuance of an alert on distributed denial-of-service attacks, and reviews of examiner handbooks, procedures, and training materials to ensure that, as threats evolve, all national banks and federal savings associations can identify cyber risks and strengthen their risk management and control systems. Under the Comptroller's leadership as the chair, the FFIEC established a Cyber-security and Critical Infrastructure Working Group to work with financial institutions and their critical service providers to effectively identify, assess, and mitigate cyber-security risks. During the summer of 2014, FFIEC members piloted the Cybersecurity Assessment, a cybersecurity examination work program at more than 500 community institutions, to evaluate those institutions' preparedness to mitigate cybersecurity risks. An overview of key observations from these assessments was published in November 2014.

Enforcement Activities

As needed, the OCC uses its enforcement authority to ensure that national banks and federal savings associations operate in a safe and sound manner and in compliance with laws and regulations. This authority comes in the form of formal and informal enforcement actions.

The OCC also issued standards that it will use when it requires national banks, federal savings associations, or federal branches or agencies (collectively, banks) to employ independent consultants as part of an enforcement action to address significant violations of law, fraud, or harm to consumers.

The OCC issued 75 formal enforcement actions against regulated institutions and 177 informal enforcement actions against institution-affiliated parties in FY 2014, resulting in the assessment of over $380 million in civil money penalties and over $85 million in required restitution. Significant enforcement activities in FY 2014 included, among others:

- Actions against banks that failed to maintain effective Bank Secrecy Act/Anti-Money Laundering (BSA/AML) programs and file complete, timely, and accurate suspicious activity reports (SAR). Among those actions was a $350 million CMP against three affiliated banks following a 2013 cease-and-desist order in which the banks were ordered to correct deficiencies in their compliance programs. The OCC also collaborated on BSA enforcement-related activities with other federal agencies and law enforcement entities such as the Financial Crimes Enforcement Network.

- The OCC's use of its authority under the Federal Trade Commission Act in 2014 to stop unfair and deceptive add-on consumer products, which some banks offered through marketing agreements with third-party vendors. Banks were cited for offering debt cancellation products that did not always cover the consumer's minimum monthly loan payment, as promised, and for identity theft protection products that did not deliver the promised benefits. Because these cases involved third parties, the OCC's consent orders also required the cited banks to develop and submit risk management plans for add-on consumer products marketed or sold by the banks or their vendors.

The OCC supervision and enforcement staff also work closely with their Consumer Finance and Protection Board counterparts on matters affecting OCC-regulated entities.

Regulatory Activities
The OCC's strategic objectives emphasize regulatory oversight practices that support national banks' and federal savings associations' ability to compete while maintaining safety and soundness. In addition, the OCC will continue its legal work of analysis and interpretation of national bank and federal savings association powers and authorities.

The OCC devoted a significant amount of resources in FY 2014 to regulatory activities relating to implementation of the Dodd-Frank Act, Basel III, and participating on the Financial Stability Oversight Council. In addition to the Volcker and supplemental leverage ratio rules, described above, the OCC, in conjunction with the FRB and FDIC proposed and issued a final rule to strengthen liquidity risk management in all internationally active banking organizations, including bank holding companies, certain savings and loan holding companies, and depository institutions with more than $250 billion in total assets or more than $10 billion in on-balance sheet foreign exposure, and to their consolidated subsidiaries that are depository institutions with $10 billion or more in total consolidated assets. The rule is generally consistent with the Basel Committee's liquidity coverage ratio standard.

The OCC, FRB, FDIC, SEC, Federal Housing Finance Agency, and the U.S. Department of Housing and Urban Development made revisions to a proposed rulemaking to implement the credit risk retention requirements of section 15G of the Securities Exchange Act of 1934 (15 USC 78o-11), as added by section 941 of the Dodd Frank Act. The proposal will require sponsors of asset-backed securities to retain at least five percent of the credit risk of the assets underlying the securities and would not permit sponsors to transfer or hedge that credit risk. A final rule was adopted by the agencies in October 2014.

The OCC also worked with other relevant agencies to implement various provisions of the Dodd-Frank Act relating to mortgage appraisal requirements, appraisal requirements for higher-priced mortgages, and minimum requirements for state registration and supervision of appraisal management companies.

Charter Activities
The OCC processed 2,624 corporate applications and notices in FY 2014, of which 98 percent were completed within required timeframes. 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. The OCC continues to receive and process a significant share of applications involving resolution of problem financial institutions.

FY 2015 and 2016 Priorities
A major focus of the OCC's supervisory, regulatory, and administrative programs for FY 2015 and for FY 2016 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. In addition, the OCC and the other federal banking agencies are commencing a review of the burden imposed on community institutions by existing

regulations pursuant to the decennial review required by the Economic Growth and Regulatory Paperwork Reduction Act of 1996.

The OCC is observing signs that credit risk is building, including erosion in the underwriting standards for syndicated leveraged loans, and loosening of standards in the indirect auto market. Therefore, the OCC will continue to closely evaluate current underwriting standards by conducting targeted underwriting examinations and completing the annual underwriting survey. The OCC will be working to implement recommended actions arising out of the Large and Midsize Supervision Peer Review project and will also continue efforts to implement its strategic initiatives to make the OCC a stronger and more effective organization. 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;
- 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;
- 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;
- Determine whether national banks and federal savings associations have required risk management, internal controls, operational processes and capital to support planned new or expanded lines of business;
- Determine whether 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 increases 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, and Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act laws and regulations;
- Continue to work with Treasury and other federal financial regulators to implement provisions of the Dodd-Frank Act and the enhanced capital and liquidity standards under Basel III;
- Continue to support a competitive national banking and federal savings association system through entry of new charters, other bank and federal savings association structure

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

- Conduct a self-assessment to identify gaps in guidance, examiner and financial institution training, and resources to ensure the supervisory process adequately responds to, and addresses, evolving cyber-security risks; 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 environment continues to be challenging for the OCC and the national banking and federal savings association industry ("federal banking system"). While the economy has been growing, and economic fundamentals have improved, neither the job market nor the housing sector has returned to normal levels. For banks, the low interest rate environment is dampening margins and adversely affecting earnings of many institutions.

The federal banking system faces heightened compliance, operational, reputation, and strategic risks because of significant changes in laws, regulations, and accounting standards. National banks and federal savings associations will need to integrate these changes into their operations, which is likely to lead to fundamental shifts in many institutions' business models and strategic plans. National banks and federal savings associations also face risks from the eventual normalization of interest rates. To address these challenges, the OCC will need to conduct ongoing assessments of emerging risks and the underlying condition of the federal banking system, and to prioritize and allocate resources to the areas and institutions of highest risk.

The federal banking system has weathered a serious disruption to financial markets, a crisis in the mortgage sector, and a slow recovery from a long and deep recession. If system assets continue to grow at the rate of nominal Gross Domestic Product (GDP), and if GDP grows at its historical average over the next five years, assets could grow in the way shown in the following table. The long-term trend of consolidation in the federal banking system is likely to continue; the table below shows estimates of the change in number of institutions and share of assets held by banks with over $10 billion in assets, extrapolating from trends experienced between 2000 and 2012. The extrapolations exclude trust companies and foreign branch offices because, compared to national banks and federal savings associations, their growth is less closely linked to underlying domestic economic trends.

	Number of institutions		Assets	Share of total system assets in institutions with assets >$10 billion	
estimated change	OCC banks	OCC thrifts	All OCC-supervised	2013	92.3%
2013 to 2018	-24%	-21%	28%	2018e	94.8%

e = estimated

Loan growth has been slower than usual in an economic recovery, in part because the economy as a whole has been growing more slowly than is usual after a severe recession. The combination of recession and financial crisis caused households to deleverage, in particular cutting into the demand for residential mortgage loans, even as tightened underwriting standards reduced the supply of credit from pre-recession levels. However, commercial lending has been growing, with outstanding commercial and industrial loans now back to their previous peak. In addition, many firms have accumulated cash reserves, and even medium-size firms can now borrow long-term at low rates in bond markets.

Credit loss rates for the system rose sharply for all major loan categories during the financial crisis and recession, but are now back to or below their two-decade averages for all major loan categories. To strengthen their positions in the aftermath of the crisis, many financial institutions have raised additional capital and the largest have built up historically high shares of liquid assets. The result is a stronger federal banking system than existed before the crisis.

Section 2 – Budget Adjustments and Appropriation Language

2.2 – Operating Levels Table

Dollars in Thousands

Office of the Comptroller of the Currency Object Classification	FY 2014 Actual	FY 2015 Estimated	FY 2016 Estimated
11.1 - Full-time permanent	499,488	519,127	529,510
11.3 - Other than full-time permanent	7,165	9,247	9,432
11.5 - Other personnel compensation	2,603	3,008	3,068
11.9 - Personnel Compensation (Total)	**509,256**	**531,382**	**542,010**
12.0 - Personnel benefits	221,871	252,047	257,088
13.0 - Benefits for former personnel	-77	225	230
Total Personnel and Compensation Benefits	**$731,050**	**$783,654**	**$799,328**
21.0 - Travel and transportation of persons	58,239	62,942	64,200
22.0 - Transportation of things	2,331	2,335	2,382
23.1 - Rental payments to GSA	56	59	60
23.2 - Rental payments to others	58,952	63,667	64,940
23.3 - Communication, utilities, and misc charges	11,481	14,869	15,166
24.0 - Printing and reproduction	719	885	903
25.1 - Advisory and assistance services	19,811	33,642	34,315
25.2 - Other services	23,065	20,123	20,525
25.3 - Other purchases of goods & serv frm Govt accounts	6,040	11,072	11,293
25.4 - Operation and maintenance of facilities	3,689	5,475	5,585
25.7 - Operation and maintenance of equip	58,436	61,916	63,154
26.0 - Supplies and materials	5,271	7,791	7,947
31.0 - Equipment	30,730	21,030	21,451
32.0 - Land and structures	2,419	1,000	1,020
42.0 - Insurance claims and indemnities	1,520	240	245
Total Non-Personnel	**282,759**	**307,046**	**313,186**
Total Budgetary Resources	**$1,013,809**	**$1,090,700**	**$1,112,514**
Budget Activities:			
Supervise	889,111	956,544	975,675
Regulate	105,436	113,433	115,702
Charter	19,262	20,723	21,137
Total Budgetary Resources	**$1,013,809**	**$1,090,700**	**$1,112,514**
FTE	**3,891**	**3,959**	**3,959**

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 Plan

3A – Supervise

($956,544,000 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 OCC's Supervision Program specifically supports the following Treasury Objectives:
1.3: Complete implementation of financial regulatory reform initiatives and continue monitoring the markets for threats to stability;
1.4: Facilitate commerce by providing trusted U.S. currency, services, and products for the American public;
4.3: Improve the cybersecurity of our Nation's financial sector critical infrastructure; and
4.4: Protect the integrity of the financial system by implementing, promoting, and enforcing anti-money laundering and counterterrorism financing standards.

The primary goal of the OCC's Supervision Program is to ensure that these institutions operate in a safe and sound manner and in compliance with laws requiring fair treatment of their customers and fair access to credit and financial products. The OCC's Supervision Program supports the implementation of the financial regulatory reform initiatives including those in the Dodd-Frank Wall Street Reform and Consumer Protection Act as well as other regulatory initiatives designed to strengthen the nation's federal banking system. The OCC also monitors risks and threats to the stability of the federal banking system through its regular examinations of the institutions it supervises and other monitoring programs such as its Semi-annual Risk Perspectives Report, participation in the Shared National Credit Program, and its Credit Underwriting Survey.

The OCC's Supervision Program supports facilitating commerce through the goal of ensuring the safety and soundness of the federal banking system. Through its Supervision Program the OCC has taken a number of steps to improve the cyber-security of the nation's financial sector critical infrastructure including organizing webinars for community bankers. The agency continues to update examiner handbooks, procedures, and training materials to ensure that, as threats evolve, all national banks and federal savings associations can identify cyber risks and strengthen their risk management and control systems. The OCC is an active member of the Financial Services Information Sharing and Analysis Center, which provides greater real-time insight into a broad range of potential threats to the industry and the ability to assist, when appropriate, in a coordinated response with other government agencies. Finally, the OCC supports protecting the integrity of the financial system through its examinations of compliance with BSA/AML and through the initiation of enforcement actions for non-compliance with BSA/AML laws and regulations.

<u>*Description of Performance:*</u>

Percentage of National Banks and Federal Savings Associations with Composite CAMELS Rating of 1 or 2

The composite Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, and Sensitivity (CAMELS) rating reflects the overall condition of a national bank or federal 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. As of September 30, 2014, 87 percent of national banks and federal savings associations earned composite CAMELS ratings of either 1 or 2. 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 are affecting many institutions. Degradation in CAMELS also can 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.

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. As of September 30, 2014, 93 percent of national banks and federal savings associations were classified as well-capitalized.

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. The target for FY 2015 and FY 2016 will currently remain unchanged at 94 percent. As of September 30, 2014, national banks and federal savings associations continue to show strong compliance with consumer protection regulations with 95 percent earning a consumer compliance rating of either 1 or 2. Under the Dodd-Frank Act, the OCC has enforcement and supervisory authority for those institutions with total assets of no more than $10 billion.

Rehabilitated National Banks and Federal Savings Associations as a Percentage of Problem 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 rehabilitation. As of September 30, 2014, 39 percent of national banks and federal savings associations with composite CAMELS ratings of 3, 4, or 5 one year ago have improved their ratings to either 1 or 2 this year. This is below the target of 40 percent for FY 2014. As with the other measures, the OCC's performance on this measure has been adversely affected by the underlying economic conditions facing the banking industry.

As previously noted, the OCC is taking a number of steps through its Supervise and Regulate programs to 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 addressed most successfully. 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 2015 and beyond.

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 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. As of September 30, 2014, total OCC cost relative to every $100,000 in assets regulated was $9.75 compared to the FY 2014 target of $10.20. The OCC will continue its efforts to ensure that resources are used prudently and that programs are carried out in a cost effective manner.

3.1.1 – Supervise Budget and Performance Plan

Dollars in Thousands

Supervise Budget Activity Resource Level	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Estimated	FY 2016 Estimated
Expenses/Obligations	$597,859	$618,254	$684,273	$924,417	$873,942	$889,111	$956,544	$975,675
Budget Activity Total	**$597,859**	**$618,254**	**$684,273**	**$924,417**	**$873,942**	**$889,111**	**$956,544**	**$975,675**

Measure	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Target	FY 2016 Target
Percentage of National Banks and Federal Savings Associations That Are Categorized As Well Capitalized	N/A	N/A	N/A	92.0	94.0	95.0	95.0	95.0
Percentage of National Banks and Federal Savings Associations With Consumer Compliance Rating of 1 or 2	N/A	N/A	N/A	93.0	94.0	94.0	94.0	94.0
Percentage of National Banks and Federal Savings Associations with Composite CAMELS Rating 1 or 2	N/A	N/A	N/A	76.0	80.0	90.0	90.0	90.0
Rehabilitated National Banks And Federal Savings Associations As A Percentage Of Problem National Banks One Year Ago (CAMEL 3,4, or 5)	29.0	23.0	22.0	27.0	34.0	40.0	40.0	40.0
Total OCC Costs Relative To Every $100,000 in Bank And Federal Savings Associations Assets Regulated ($)	N/A	N/A	N/A	10.51	9.99	10.2	10.2	10.2

Key: DISC - Discontinued and B - Baseline

3B – Regulate
($113,433,000 from reimbursable resources):
The OCC's Regulate Program specifically supports the following Treasury Objectives:
1.3: Complete implementation of financial regulatory reform initiatives and continue monitoring the markets for threats to stability;
1.4: Facilitate commerce by providing trusted U.S. currency, services, and products for the American public; and
4.4: Protect the integrity of the financial system by implementing, promoting, and enforcing anti-money laundering and counterterrorism financing standards.

The Regulate Program supports the OCC's strategic goal of a vibrant and diverse system of national banks and federal savings associations that supports a robust U.S. economy. 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 establishing examination policies and handbooks; interpreting administrative, judicial, and congressional proceedings; and establishing the applicable legal and supervisory framework for new financial services and products.

<u>*Description of Performance:*</u>
Specific activities undertaken in FY 2014 as part of this program were described earlier and included the issuance of various supervisory guidance on the Volcker rule, heightened enterprise risk management expectations, and third party relationship management. Significant resources also were spent on various Dodd-Frank rulemakings, including those pursuant to section 171(b) regarding minimum risk-based capital requirements; 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 2015, the OCC will continue to support operations of the Financial Stability Oversight Council and issue Dodd-Frank rulemakings.

3.1.2 – Regulate Budget and Performance Plan

Dollars in Thousands

Regulate Budget Activity Resource Level	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Estimated	FY 2016 Estimated
Expenses/Obligations	$94,511	$97,735	$108,171	$125,416	$111,783	$105,436	$113,433	$115,702
Budget Activity Total	**$94,511**	**$97,735**	**$108,171**	**$125,416**	**$111,783**	**$105,436**	**$113,433**	**$115,702**

3C – Charter

($20,723,000 from reimbursable resources):
The OCC's Charter Program specifically supports the following Treasury Objectives:
1.4: Facilitate commerce by providing trusted U.S. currency, services, and products for the American public; and
4.4: Protect the integrity of the financial system by implementing, promoting, and enforcing anti-money laundering and counterterrorism financing standards.

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.

<u>*Description of Performance:*</u>
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 national 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. As of September 30, 2014, the OCC completed 98 percent of national bank and federal savings association applications and notices within the required time frame, above the target of 95 percent. 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 Plan

Dollars in Thousands

Charter Budget Activity Resource Level	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Estimated	FY 2016 Estimated
Expenses/Obligations	$23,628	$24,434	$27,043	$27,338	$30,486	$19,262	$20,723	$21,137
Budget Activity Total	**$23,628**	**$24,434**	**$27,043**	**$27,338**	**$30,486**	**$19,262**	**$20,723**	**$21,137**

Measure	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Target	FY 2016 Target
Percentage of Licensing Applications and Notices Completed within Established Timeframes	95.0	96.0	97.0	98.0	97.0	95.0	95.0	95.0

Key: DISC - Discontinued and B - Baseline

Section 4 – Supplemental Information

4A – Summary of Capital Investments
The OCC's Information Technology (IT) strategic plan aligns information technology initiatives and investments to the OCC's core mission, including the development of new or enhanced applications and services and the disposition of redundant or "end-of-lifecycle" applications, capabilities, and services.

The IT strategic plan is implemented through the budget formulation and the Capital Planning and Investment Control processes. 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. Invest, evaluate, and control ensures 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's 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 2015 and 2016 Plans The OCC has three major IT initiatives in FY 2015 and 2016.
Servers Support Services (SSS) - The SSS supports the OCC's server Operations and Maintenance. The infrastructure staff continues to build out additional capacity at the co-location facility to support the server technology refresh, business resiliency, and disaster recovery, and increases in enterprise storage capacity.

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. In FY 2015, the OCC will continue an on-going effort to upgrade the headquarters and field office phone systems and telecom infrastructure including Local Area Network/Wide Area Network hardware, Video Tele-Conferencing and Voice Over Internet Protocol.

End User Services and Support (EUSS) - The EUSS includes help desk/customer service support, personal computer hardware and software operations and maintenance, asset management, and desktop engineering and image management. New computers and peripherals will be deployed to a portion of the workforce in FY 2015. In FY 2015, the OCC will also refresh hand-held devices.

A summary of capital investment resources, including major information technology and non-technology investments, can be viewed and downloaded at:
http://www.treasury.gov/about/budget-performance/Pages/summary-of-capital-investments.aspx
This website also contains a digital copy of this document.