# Office of the Comptroller of the Currency

## Mission Statement

To ensure a safe and sound national banking system for all Americans.

## Program Summary by Budget Activity

Dollars in Thousands

| Office of the Comptroller of the Currency | FY 2008 Obligated | FY 2009 Estimated | FY 2010 Estimated | FY 2010 $ Change | FY 2010 % Change |
|---|---|---|---|---|---|
| Supervise | $565,921 | $647,400 | $693,285 | $45,885 | 7.09% |
| Regulate | $87,583 | $102,343 | $109,597 | $7,254 | 7.09% |
| Charter | $20,212 | $25,586 | $27,399 | $1,813 | 7.09% |
| **Total Resources** | **$673,716** | **$775,329** | **$830,281** | **$54,952** | **7.09%** |
| **Total FTE** | **3,031** | **3,127** | **3,161** | 34 | **1.8%** |

*FY 2010 data provided for informational purposes only. The budget information presented below is for FY 2009.

## FY 2009 Priorities

- Regulate and supervise approximately 1,605 national bank charters and 50 federal branches of foreign banks with total assets of approximately $8.7 trillion, as of December 31, 2008.
- Conduct examinations based on the risk profile of individual national banks to ensure they are safe and sound, sufficiently capitalized, and comply with consumer protection laws and regulations.
- Work closely with the Department of Treasury to implement provision of the Emergency Economic Stabilization Act (EESA) of 2008 and the administration’s Financial Stability Plan.
- Proactively address potential adverse changes in national bank asset quality, liquidity and risk profiles.
- Ensure appropriate follow-up to market disruption issues identified in 2007 and 2008.
- Fill key experienced and specialty examiner and bank supervision policy analyst positions; continue the recruitment of entry-level examiners and enhance their retention at the critical three/four-year point of their careers.
- Develop the next generation of bank supervision leadership.
- Work with other federal banking regulators to implement the banking agencies’ risk-based capital standards (Basel II).
- Combat fraud and money laundering, and protect the integrity of the financial system through national banks’ compliance with the Bank Secrecy Act/Anti-money laundering (BSA/AML), and the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act laws and regulations.
- Proactively address sound underwriting, risk management systems, and consumer issues presented in connection with retail banking products offered by national banks.

- Continue to support and defend the attributes and benefits of the national bank charter.
- Continue to support a competitive national banking system through entry of new charters, other bank structure transactions, and expansion of bank services and products in a safe and sound manner.
- Continue to refine and improve the Comprehensive Report on Mortgage Performance.

# Table of Contents

## Section 1 – Purpose

### 1A – Description of Bureau Vision and Priorities

The Office of the Comptroller of the Currency (OCC) was created by Congress to charter national banks, 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.

The OCC supervises approximately 1,605 national bank charters and 50 federal branches of foreign banks in the United States. Total assets under the OCC supervision are approximately $8.7 trillion or 70 percent of total U.S. commercial banking assets. The average size and complexity of the institutions in the national banking system continue to grow, creating increasing and diverse challenges for the OCC.

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

The OCC's priorities for fiscal year (FY) 2009 include supervisory issues related to continued adverse changes in national bank asset quality and risk profiles, completing remaining work and resolving implementation issues on the federal banking agencies' risk-based capital standards, compliance with BSA/AML and USA PATRIOT Act requirements, addressing issues raised by the range of retail banking products offered by national banks, and identifying and ensuring appropriate follow-up to continued disruption and volatility in the financial and credit markets. Coordination and cooperation with state regulators will be a significant focus for the agency. Filling key experienced and specialty examiner and bank supervision policy analyst positions, recruiting entry-level examiners and enhancing their retention at the critical three/four-year point of their careers, and continuing to develop the next generation of bank supervision leadership are also critical initiatives of the OCC.

### 1B – Program History and Future Outlook

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

Operations are funded primarily (approximately 96 percent) from semiannual assessments levied on national banks. Revenue from investments in U.S. Treasury securities and other income comprise the remaining four percent of the OCC's funding.

The OCC does not receive congressional appropriations to fund any portion of its operations.

The OCC and the banking industry continue to operate in a highly challenging and volatile environment. The downturn in housing and the broader economy is having an adverse effect on national banks' loan portfolios, with the levels of nonperforming and past due loans increasing. Responding to deteriorating credit quality and ensuring adequate liquidity, loan loss reserves, and capital buffers are maintained, will continue to be major focal points for the agency and the industry in the coming year. To address these challenges, the OCC is identifying those banks which are the most vulnerable to the impact of current economic conditions, and coordinating and allocating bank supervision resources to the areas and institutions of highest risk.

The following are highlights of the OCC's FY 2008 accomplishments and specific FY 2009 challenges.

**Supervisory Activities**

As the supervisor of national banks, the OCC has various ways to influence the national banking system: policy guidance and regulations that set forth standards for sound banking practices; on-site examinations and ongoing off-site monitoring that enable us to assess compliance with those standards and to identify emerging risks or trends; and a variety of supervisory and enforcement tools – ranging from matters requiring management's attention to informal and formal enforcement actions – that are used to obtain corrective action to remedy weaknesses, deficiencies, or violations.

Through examination programs, the OCC continuously supervises banks in its community bank, midsize and credit card bank, and large bank programs. A supervisory strategy is developed based on each banking institution's risk profile and condition. Examination activities focus on safety and soundness, consumer compliance, BSA/AML, USA PATRIOT Act, fair lending, asset management, bank information technology, and the Community Reinvestment Act (CRA).

Through policy programs, the OCC monitors and alerts the industry to emerging risks and practices that could adversely affect a bank's safety and soundness or compliance with banking laws and regulations. Over the last several years, the OCC issued a series of supervisory guidance to address weaknesses in bank underwriting standards and credit practices. These guidelines addressed credit card account management; loss allowance practices; sound risk management practices for concentration loans in commercial real estate (CRE) lending; credit risk management for home equity lending; and nontraditional and subprime mortgage products.

In FY 2008, supervisory activities centered on monitoring and responding to adverse conditions in the credit and financial markets, and national banks' loan portfolios. During the market turmoil of the past year, resident examiner teams at the largest national banks were in frequent contact with the business and risk managers of those institutions' funding, trading, and mortgage areas to enable close monitoring of market conditions, deal flow, and funding availability. Information gleaned from on-site presence at these institutions was used to help identify and develop recommendations for enhanced risk management practices in several of these companies and have been issued by various domestic and international working groups, including the President's Working Group on Financial Markets, the Senior Supervisors Group, and the Financial Stability Forum.

More generally, the current market and economic conditions have highlighted the importance of banks' ability to identify, measure, manage, and control risk exposures. As a result, supervisory efforts have emphasized the need for sound underwriting and robust credit administration; diversified funding sources, supplemented with realistic contingency funding plans; strong internal controls and risk management systems; and timely recognition of losses coupled with adequate loan loss reserves and strong capital cushions. While assessing credit quality, adequacy of loan loss reserves, liquidity, capital, and risk management practices have been and continue to be primary focus, we also remain cognizant of the continuing need to address supervisory issues in the areas of fair lending, consumer protection, BSA/AML, and information security.

*Monitoring Credit Quality* - Monitoring and evaluating the quality of the loans and investments made by national banks are a fundamental component of the OCC's supervision program. Examiners evaluate asset quality and the adequacy of a bank's credit and investment risk management and controls through their on-site examination activities. They also ensure the bank has properly recorded any losses that have occurred in their loans or investments, and that the bank maintains adequate reserves for inherent losses in their loan portfolio.

In addition to individual bank examinations, the OCC conducts a variety of other activities aimed at identifying and responding to systemic trends and emerging risks that could adversely affect asset quality or the availability of credit at national banks and the banking system. FY 2008 activities included:

- Annual Survey of Credit Underwriting Practices - This annual survey, conducted by the OCC examiners and Credit Risk staff, identifies trends in lending standards and credit risk for the most common types of commercial and retail credit products offered by national banks. It provides an aggregate snapshot of how various factors, such as competition, are affecting how banks price and underwrite loans and whether the OCC believes the inherent credit risk in banks' portfolios are increasing or decreasing. The 2008 survey included the 62 largest national banks whose loans, in aggregate, totaled $3.7 trillion, and represent approximately 83 percent of all outstanding loans in the national banking system. The survey found that after four consecutive years of eased underwriting standards, the majority of banks have tightened underwriting standards for both retail and commercial loans. In releasing this year's survey results, the OCC reiterated its expectation that bankers maintain prudent credit underwriting standards throughout the economic cycle. The 2009 survey is underway and will include questions about banks' overall loan production and, for banks that have received funds under Treasury's Troubled Asset Relief

Program (TARP) Capital Purchase Program (CPP), whether the TARP proceeds have affected the banks' underwriting standards or loan production volume.

- Shared National Credit Review - The annual Shared National Credit (SNC) review is a joint program conducted by the OCC, the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), and the Office of Thrift Supervision (OTS). The SNC review addresses large syndicated loans held by multiple banks. The 2008 review covered 8,750 credit facilities (5,813 borrowers) with commitments totaling $2.8 trillion. SNC commitments increased nearly $500 billion, or 22 percent, since the 2007 SNC review. The OCC continued work on an interagency project to modernize the collection and analysis of SNC data and to improve the program's efficiency and effectiveness. This project will also continue in FY 2009.

- Leveraged Lending Target Reviews and Examination Procedures - The disruptions that occurred in the credit markets during the past year delayed completion of long-term financing for some leveraged loans that banks had originated with the intent to sell (syndicate) to investors. This resulted in a number of large national banks retaining a higher volume of leveraged loans on their balance sheets. In FY 2008, Large Bank Supervision (LBS) conducted leveraged lending target reviews at the largest syndication banks, with a focus on syndicated pipeline management, stress testing, and limits setting. The OCC also issued a Leveraged Lending Handbook that consolidates and supplements existing guidance to bankers and examiners on the risks associated with leveraged lending, and the risk management systems and controls needed to mitigate those risks.

*Bank Secrecy Act/Anti-Money Laundering* - Through on-site examination activities, the OCC examiners evaluate banks' compliance with BSA/AML requirements and, where weaknesses are noted, seek corrective action. The OCC has also developed a Money Laundering Risk System that provides approximately 1,500 national community bank charters with succinct BSA/AML risk assessment information. This information also enhances the OCC's effectiveness in BSA/AML supervision. In FY 2008, the Financial Crime Enforcement Network (FinCEN) and the OCC each assessed Civil Money Penalties of $15 million against a foreign bank branch for alleged violations of the Bank Secrecy Act, which the bank agreed to pay under a consent order.

*Commercial Real Estate Reviews* - CRE lending has been a focus within the Midsize and Community Bank Supervision (M/CBS) line of business due to the significant concentrations that some banks have developed in this sector. Approximately one quarter of the community banks supervised by the OCC have CRE-related concentrations exceeding one or both of the thresholds contained in the interagency CRE guidance issued in December 2006.[1] The share is even higher in areas that experienced rapid appreciation followed by downward pressures on home prices.

---

[1] The concentration thresholds articulated in the guidance are commercial real estate loans (excluding owner-occupied real estate) exceeding 300 percent of risk-based capital, or construction and development loans exceeding 100 percent of risk-based capital.

For all banks with CRE concentrations exceeding the thresholds, the OCC is conducting asset quality reviews targeted on the bank's CRE portfolio. The objective of these reviews is to work with bankers to identify any problems at an early stage, confirm that bank management is managing this risk appropriately, and, if not, to ensure bank management takes necessary remedial action. Some of these examinations have already been completed and many more are underway. Examinations of all of the banks with the highest risk potential have been completed.

*Residential Mortgage Lending and Reporting Metrics* - The fallout from the subprime mortgage turmoil and the subsequent downturn in housing has been well publicized. National banks were not dominant originators of subprime mortgages; however, continued strains in the housing markets are having an adverse affect on national banks' residential mortgage and home equity loan portfolios. To improve OCC's ability to monitor conditions in this important market segment, in FY 2008 the OCC began requiring the nine largest national bank mortgage servicers to submit comprehensive mortgage data to the OCC on a monthly basis. In the summer of 2008, we established the first loan-level source of mortgage performance data with the Office of Thrift Supervision (OTS) by gathering validated information and reporting on more than 35 million first-lien mortgages, which represents more than 60 percent of all mortgages in the country. Subsequently, OCC expanded its efforts to present the first available data on the performance of loan modifications across an extremely large portfolio of loans. Based on what we found, we have been working with the OTS and mortgage servicers to obtain greater detail on the affordability and sustainability of loan modifications for OCC's next report in March 2009.

The data set has grown from more than 60 elements in June 2008 to more than 90 elements per loan in the most recent request for information from the mortgage servicers. The effort requires extensive work by mortgage servicers and regulators to review, validate, and present the data. In many cases, new data elements require changes to systems in order to systematically capture and provide good information. The OCC and OTS data collection now calls for up to 2.38 billion individual pieces of information each month on the loans serviced by the largest national banks and thrifts. As this additional data is collected, processed, and validated, the OCC and OTS intend to continue expanding the information contained in the quarterly public reports.

The OCC also continues to encourage national banks to work constructively with borrowers who may be facing difficulties with their current mortgage obligations and to continue to meet the needs of credit worthy borrowers. In November 2008, the OCC and other federal banking agencies issued the *Interagency Statement on Meeting the Needs of Creditworthy Borrowers*. In implementing this Statement, institutions are encouraged to lend prudently and responsibly to creditworthy borrowers, work with borrowers to preserve homeownership and avoid preventable foreclosures, adjust dividend policies to preserve capital and lending capacity, and employ compensation structures that encourage prudent lending. The OCC also supports various private and public sector initiatives and programs that seek to assist these borrowers, including those initiated by the American Securitization Forum and HOPE NOW alliance.

*Maintaining Adequate Liquidity, Loan Loss Reserves and Capital* - Prompt recognition of losses and maintenance of strong loan loss reserves and capital are critical during periods of economic stress. As previously noted, ensuring banks maintain adequate loan loss reserves and capital has been, and will continue to be, a point of emphasis during bank examinations. Similarly, the OCC also continues to evaluate the adequacy of banks' liquidity positions and liquidity risk management processes, especially at those institutions with significant concentrations in their loan or liability portfolios. In September 2008, the OCC joined other global supervisors in endorsing the Basel Committee's *Principles for Sound Liquidity Risk Management and Supervision*. The principles underscore the importance of establishing a robust liquidity risk management framework that is well integrated into the bank-wide risk management process. The OCC and other U.S. federal banking agencies plan to issue for comment guidance on the application of these principles to U.S. depository institutions during the first quarter of 2009.

In light of current market and economic conditions, national banks have made substantial increases to their loan loss reserves during the past several quarters. Loan loss reserves as a percentage of total loans increased from 1.15 percent in the second quarter of 2007, to 1.91 percent in the second quarter of 2008, and to 2.16 in the third quarter of 2008. Should credit performance continue to worsen, as we expect, banks will need additional loan loss reserves. National banks have also taken steps to bolster their capital levels by reducing dividends and raising new capital. As of January 8, 2009, the 14 largest national banking organizations have raised approximately $150 billion of new capital and debt levels (excluding TARP) over the last five quarters. As of September 30, 2008, 99 percent of national banks meet or exceed the "well capitalized" regulatory capital requirements.

*Improving Risk Management Practices* - The OCC has worked closely with other domestic and international regulators to identify areas where risk management practices can be improved. These efforts have culminated in a series of reports and recommendations issued by the President's Working Group, the Senior Supervisors Group, and the Financial Stability Forum. Broadly speaking, these reports call on financial institutions to: strengthen risk management practices; enhance transparency, disclosure, and valuation practices; and improve stress testing and firm-wide capital planning processes. The OCC has existing guidance that addresses some of the issues and recommendations highlighted in these recent reports and we have provided examiners at the large banks with a summary and cross reference of these policies to assist them with their on-site evaluations of areas where banks may need to improve their risk management practices.

*Basel II Capital Rules* - In December 2007, the OCC and the other federal banking agencies (FRB, FDIC, and OTS) issued final rules that implement the advanced approaches established by the Basel II Capital Accord for computing risk-based regulatory capital requirements by certain banking organizations. Specifically, this rule establishes regulatory capital requirements and supervisory expectations for credit and operational risks for banks that choose or are required to adopt the advanced approaches of the Basel II Capital Accord. The rule also articulates enhanced standards for the supervisory review of capital adequacy and public disclosures of an institution's risk exposure and capital adequacy. The rule's Internal Ratings Based Approach for credit risk and the Advanced Measurement Approaches for operational risk represent a more risk sensitive and comprehensive regulatory capital regime than existing risk-based capital rules, and will establish capital requirements and risk management expectations that are aligned more closely to the risks assumed by these institutions. As a result of these changes, this rule is now fundamentally consistent in most respects with the Basel II framework implemented internationally. However, the final rule retains the leverage ratio and Prompt Corrective Action (PCA) requirements, safeguards unique to the U.S. supervisory process that the agencies believe are critical for safety and soundness purposes.

The recent market turmoil highlighted areas where the current Basel II capital framework needed to be strengthened and the OCC is actively involved in these efforts. Among the refinements that are recommended in the consultative paper that the Basel Committee on Banking Supervision issued in January 2009 are higher capital requirements for re-securitizations, such as collateralized debt obligations comprised of asset-backed securities; a Pillar 2 capital requirement that is an add-on to the Pillar 1 capital requirement; and additional disclosures related to securitizations. These recommendations focused on structured securities as these securities experienced significant losses during the recent market turmoil. The capital treatment of liquidity facilities that support asset-backed commercial paper conduits is also under review. The current market risk capital framework, based on 1996 amendments to Basel I, is also being reexamined. These proposed changes are designed to better reflect potential exposures arising from the larger portion of complex, less liquid credit products that institutions now hold in their trading portfolios and to further reduce the incentive for regulatory arbitrage between the banking and trading books. The U.S. agencies will jointly consider the adoption of these and other changes to the Basel II Accord for U.S. institutions through the agencies' notice and comment process.

*Accounting and Financial Disclosure Issues* - The OCC and other federal banking agencies continue to work closely with the Securities and Exchange Commission (SEC) and the Financial Accounting Standards Board (FASB) on various accounting and disclosure issues related to the recent market disruptions, including various interpretations and application of guidance related to mortgage loan modifications, fair value measurement in illiquid markets, and accounting for asset-backed commercial paper and structured financial instruments. The agencies provided input as needed to the FASB as it developed revised accounting and disclosure standards governing securitization transactions and off-balance sheet entities. The FASB issued exposure drafts of those revised standards on September 15, 2008. The agencies are participating in a number of roundtable meetings with various market participants in order to ensure that they have a thorough understanding of how the proposed accounting changes would affect banking organizations from a regulatory perspective.

*Emergency Economic Stabilization Act and Financial Stability Plan* - The OCC is working closely with the U.S. Treasury Department and the other federal banking agencies to implement provisions of the Emergency Economic Stabilization Act of 2008 (EESA) and the administration's Financial Stability Plan. These efforts include providing technical assistance to the U.S. Treasury Department on the design and operation of the various capital and asset purchase programs, as well as the design and execution of the stress tests that will be applied to major financial institutions. The OCC chairs the interagency TARP CPP Council, which serves as an advisory body to the Treasury Department to ensure that recommendations for CPP participation are applied effectively and consistently across the federal banking agencies and Qualifying Financial Institution (QFI) applicants. The OCC is also coordinating with the FDIC on the application of the FDIC's Temporary Liquidity Guarantee Program (TLGP).

*Resolving Problem Banks* - The goal of OCC's supervision is to identify and correct potential issues at an early stage, before they adversely affect the safety and soundness of the banking system or the viability of any individual bank. Despite these efforts, given current market conditions, we expect to see an increase in problem banks that will require more in-depth supervisory attention. As a bank reaches this stage, the OCC's efforts focus on developing a specific plan that takes into consideration the ability and willingness of management and the board to correct deficiencies in a timely manner and return the bank to a safe and sound condition. In most instances these efforts, coupled with the commitment of bank management, result in a successful rehabilitation of the bank. The OCC makes every effort to address and seek correction of bank problems through its examination program. However, when problems are serious and well-documented, enforcement action may be warranted to address violations of laws, rules, and regulations; unsafe or unsound banking practices and breaches of fiduciary duty; and noncompliance with OCC directives or orders by national banks, their insiders, and other affiliated parties.

The OCC has a variety of tools that were helpful in dealing with the industry-wide increase in problems and troubled institutions in FY 2008, including statutory Prompt Corrective Action determinations when a bank's capital deteriorates below specified thresholds, requirements for increased capital and liquidity sources, required changes in bank management, and prior OCC approval of changes in business plans.

In combating mismanagement during FY 2008, the OCC took such formal enforcement actions as temporary cease and desist orders, final cease and desist orders, removal or prohibition orders, CMPs, and formal agreements. Documents relating to OCC enforcement actions can be found on the OCC's Web site at www.occ.gov.

There will be cases, however, where the situation is of such significance that the OCC will require the sale, merger, or liquidation of the bank, if possible. Where that is not possible, the FDIC may be appointed as receiver. The OCC works closely with the FDIC in these cases to affect least cost resolution, consistent with the provisions of the Federal Deposit Insurance Corporation Improvement Act. During FY 2008, there were five national bank failures where the OCC appointed the FDIC as receiver. As of February 11, 2009, there have been two national bank failures thus far in FY 2009.

*Fair Access to Financial Services and Fair Treatment of Bank Customers* - The OCC fulfills its strategic goal of fair access to financial services and fair treatment of bank customers through its ongoing supervisory programs for national banks and their operating subsidiaries. These programs include ongoing supervisory examinations to ensure compliance with fair lending laws, the CRA, section 5 of the Federal Trade Commission Act (prohibiting unfair or deceptive acts and practices), and other consumer laws and regulations. In addition to supervisory activities, the OCC issues guidance and handbooks, and offers training to bankers and bank directors to help them understand and meet their compliance and CRA obligations.

*Fair Lending* - The OCC's fair lending supervisory process is designed to assess and monitor the level of fair lending risk in every national bank. The OCC assesses compliance with fair lending laws and regulations; obtains corrective action when significant weaknesses or deficiencies are found in a bank's policies, procedures, and controls relating to fair lending; and ensures enforcement action is taken when warranted. This includes referrals to the Department of Justice and notifications to the Department of Housing and Urban Development.

As described in more detail in the Supervision section, the OCC responded to the mortgage crisis by encouraging national banks to work with consumers, supporting private and public sector initiatives and programs that seek to assist these borrowers, and collecting and analyzing extensive mortgage lending and workout data from the largest national banks.

In September 2008, the OCC held a Fair Lending Conference emphasizing the role of statistical analysis and models in fair lending compliance and enforcement. The conference was attended by nearly 300 bankers, regulators and others.

*Community Development*- In August 2008, the OCC issued a community development investments interim final rule that implements a provision of the Housing and Economic Recovery Act of 2008 that expanded national banks' authority to make public welfare investments pursuant to 12 USC 24(eleventh). The interim final rule authorizes a national bank and its subsidiaries to make public welfare investments directly or indirectly if the investments primarily benefit low- and moderate-income individuals, low- and moderate-income areas, or other areas targeted by a governmental entity for redevelopment, or if the investment would receive consideration under the CRA regulations as a "qualified investment."

The OCC actively supports the efforts of national banks to engage in sound and successful community development activities and processes community development investment notices and proposals under 12 CFR Part 24. The OCC also conducts outreach with a variety of organizations, including advocacy groups, research organizations, community development practitioners, and community development membership organizations whose constituencies include or affect low- and moderate-income consumers, distressed communities, and small and minority-owned businesses. While maintaining its consumer help website, which was launched in 2007 (www.helpwithmybank.gov), the OCC continued to seek ways to work with the other federal financial regulatory agencies to better assist consumers when they have questions or need help in resolving issues with their banks. The OCC also issued one of its periodic *Community Development Insights* reports on uses of the Low-Income Housing Tax Credit, and also published a *Community Developments* newsletter focusing on preservation of affordable rental housing.

*Foreclosure Fraud* - During FY 2008, the OCC issued a consumer advisory providing advice to help prevent borrowers from becoming victims of foreclosure rescue frauds. The OCC and the other financial regulatory agencies also issued final illustrations for helping consumers understand certain hybrid adjustable rate mortgage products. The illustrations are intended to assist institutions in providing this information to consumers, as recommended in the agencies' 2007 Statement on Subprime Mortgage Lending. The OCC also participated in the July 2008 Forum on Mortgage Lending for Low- and Moderate- Income Households sponsored by the FDIC.

*Consumer Protection* - During FY 2008, the OCC continued its work with the other federal banking agencies to improve consumer protection. In November 2007, the agencies issued final rules on identity theft "red flags" and address discrepancies, implementing sections 114 and 315 of the Fair and Accurate Credit Transactions Act of 2003, as well as final rules providing consumers with an opportunity to "opt out" before a financial institution uses information provided by an affiliate company to market its products and services to the consumer, implementing section 214 of the Act. In December 2007, the agencies and the Federal Trade Commission proposed regulations and guidelines to help ensure the accuracy and integrity of information provided to consumer reporting agencies and allow consumers to directly dispute inaccuracies.

*Enforcement* - As needed, the OCC uses its enforcement authority to address problems and noncompliance arising from unfair treatment of bank customers, including failure to meet requirements for proper disclosures relating to financial products and services.

In FY 2008, the OCC entered into a settlement agreement directing a national bank to make restitution to consumers harmed by its relationships with telemarketers and third party processors, with an estimated claim total of $125 million; to contribute to a consumer education program directed at the elderly; and to pay a $10 million Civil Money Penalty.

*Natural Disaster Relief* - The OCC also outlined measures to assist national banks and their customers affected by hurricanes, tornadoes, and other natural disasters.

*Customer Assistance* - The OCC's Customer Assistance Group (CAG) assists consumers who have questions or complaints about national banks and their operating subsidiaries. As of September 30, 2008, the CAG had received 77,000 contacts from consumers in the form of telephone calls, letters, faxes, and e-mails. The CAG had 95,000 contacts in 2008.

During FY 2008, outreach activities to state bank regulators continued. Memorandums of Understanding (MOU) have now been signed between the OCC and 43 state banking departments and the Commonwealth of Puerto Rico with several others in process. The agreements detail ways to gain efficiencies in processing cases by streamlining the way the states and the CAG exchange bank customers' complaint information. The CAG goals for FY 2009 include a continuation of outreach activities to state regulators and others.

**Regulatory Activities**

As one of its four strategic goals, the OCC strives to maintain a flexible legal and regulatory framework that enables the national banking system to provide a full, competitive array of financial services. In FY 2008, the OCC published a final rule to reduce unnecessary regulatory burden and revise and update various OCC regulations. The OCC final rule included measures updating and revising the qualifying standards and after-the-fact notice procedures that apply to national bank operating subsidiaries. The final rule expanded the list of operating subsidiary activities that are permissible upon filing an after-the-fact notice. Other revisions reduced the burden associated with applications for fiduciary powers and intermittent branches, change in bank control notices, and requirements to make securities filings. The final rule also included other measures to incorporate previously published interpretive opinions, including, electronic banking activities, and to harmonize the OCC rules with rules issued by other federal agencies, to update OCC rules to reflect recent statutory changes, and to make technical and conforming amendments to improve clarity and consistency. The OCC also amended its securities offering disclosure rules to eliminate the general requirement that a national bank in organization include audited financial statements as part of a public offering.

The OCC issued an interim final rule to add a provision to its part 32 lending limits regulation addressing temporary funding arrangements in emergency situations. The OCC's Comptroller John C. Dugan issued a statement in March 2008 stating that the OCC would play a positive and constructive role in the discussion of the Treasury Department's Blueprint for a Modernized Financial Regulatory Structure.

The OCC's strategic objectives emphasize regulatory oversight practices that support national banks' ability to compete while maintaining safety and soundness. The OCC issued its annual publication, "2007 Significant Legal, Licensing, and Community Development Precedents for National Banks" as well as the cumulative companion edition of "Permissible Activities for a National Bank." Determinations during FY 2008 included permissible types of customer-driven derivatives transactions, offering debt cancellation contracts, and permissibility of charging fees to non account holders for cashing an official check. In FY 2009, the agency will continue to consider and issue opinions regarding the safe and sound implementation of bank activities and products. The OCC will also continue to provide case-by-case analysis, when appropriate, with respect to the applicability of state law and the exclusivity of the agency's visitorial authority under the national banking laws, in order for national banks to operate efficiently under uniform national standards.

**Charter Activities**

The OCC made several significant licensing decisions in FY 2008 involving national bank business realignments and acquisitions. In addition, the OCC implemented streamlined regulatory requirements and process improvements for de novo bank charters, resulting in reduced costs and barriers, and enhanced value of the national bank charter.

The OCC suspended all licensing transaction application fees in FY 2008. The agency is providing increased local assistance to new bank organizers prior to formal application filing, with an emphasis on technical assistance, review of draft documents and introduction to key OCC staff involved in the application review and future supervision of the bank. With regard to raising capital, the OCC has reduced impediments by expediting review of offering materials, eliminating a requirement for fidelity bonding if the escrow agent is bonded or insured, eliminating a requirement for audited financial statements during the in-organization phase, and raising the shareholder threshold for required Securities Exchange Act filings. Special legal lending limit rules that expand small business, farm and residential real estate lending opportunities are now available to new national banks.

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 Licensing Department works closely with Supervision and Law units in consideration of the viability and legality of proposals for dealing with problem banks. Proposed restructurings that may avoid bank failures and their associated costs can include mergers, purchases and assumptions, and temporary bridge banks.

In FY 2009, the agency conditionally approved the first "shelf charter" to expand the pool of qualified bidders for troubled institutions. Shelf charters remain inactive until such time as the investor group holding the charter is in a position to acquire a troubled institution.

In FY 2009, the OCC plans to implement improved functionality for finding and retrieving licensing application information from the agency's public website.

**1C – Industry Outlook**

The recent sharp drop in bank earnings follows 15 years of solid growth. Over that time, banks introduced many new products, which contributed to earnings growth. But the novelty and complexity of some of these products added to the risks faced by individual banks, and by the banking system as a whole, in ways that were often not anticipated when the products were introduced.

Over the next five years, bank assets are likely to grow at about the same rate as nominal Gross Domestic Product (GDP). This is consistent with historical experience and with the status of banking as a mature industry, in which profits grow over the long-term at about the rate of nominal GDP.

| | Commercial Banks | | National Banks | | Share of Total System Assets |
|---|---|---|---|---|---|
| | Assets ($t) | Number | Assets ($t) | Number | in Banks Over $10 Billion |
| 2007 | 11.1 | 7283 | 7.8 | 1632 | 79.1% |
| 2012e | 14.2 | 6586 | 10 | 1471 | 85.0% |

The number of banks has fallen steadily for at least two decades. The long-term trend of bank consolidation is likely to continue in both national banks and all commercial banks. In 2007, 86 banks had assets exceeding $10 billion, while about 3,100 banks had assets under $100 million. By 2012, the number of banks over $10 billion is expected to remain about the same, while the number of banks under $100 million is expected to decline. As several non-banks have recently been brought into the banking system, the relative size of the banking system has increased; this trend may continue as well.

Large banks will continue to dominate the industry. Banks with over $10 billion in assets now account for 80 percent of national bank system assets; this share has been increasing, and this trend is expected to continue.

Until about five years ago, national banks consistently accounted for about 56 percent of all commercial bank assets. Since then, a series of mergers and conversions have increased the national bank share to over 70 percent of commercial bank assets.

Risks to the banking system include an intensification of the deterioration in real estate, continued problems in the credit markets, and an extended economic slowdown.

# Section 2 – Budget Adjustments and Appropriation Language

## 2.2 – Operating Levels Table

| Bureau: Office of Comptroller of the Currency | FY 2008 Obligated | FY 2009 Estimated | FY 2010 Estimated | % Change FY 2009 to FY 2010 |
|---|---|---|---|---|
| **FTE** | **3,031** | **3,127** | **3,161** | **1.09%** |
| Object Classification: | | | | |
| 11.1 - Full-time permanent | 331,774 | 370,855 | 395,911 | 6.76% |
| 11.3 - Other than full-time permanent | 7,821 | 7,685 | 8,204 | 6.75% |
| 11.5 - Other personnel compensation | 1,753 | 2,140 | 2,285 | 6.78% |
| 11.8 - Special personal services payments | 111 | 0 | 0 | 0.00% |
| 12 - Personnel benefits | 107,109 | 125,577 | 139,000 | 10.69% |
| 13 - Benefits for former personnel | 325 | 195 | 190 | -2.56% |
| 21 - Travel and transportation of persons | 41,385 | 53,645 | 58,966 | 9.92% |
| 22 - Transportation of things | 1,606 | 2,579 | 3,196 | 23.92% |
| 23.1 - Rental payments to GSA | 2,821 | 2,513 | 2,601 | 3.50% |
| 23.2 - Rental payments to others | 29,499 | 36,398 | 37,761 | 3.74% |
| 23.3 - Comm, utilities, and misc charges | 10,654 | 13,346 | 14,057 | 5.33% |
| 24 - Printing and reproduction | 938 | 1,190 | 1,234 | 3.70% |
| 25.1 - Advisory and assistance services | 25,237 | 38,872 | 38,524 | -0.90% |
| 25.2 - Other services | 16,294 | 18,142 | 20,665 | 13.91% |
| 25.3 - Other purchases of goods and services from Govt. accounts | 4,561 | 5,936 | 7,082 | 19.31% |
| 25.4 - Operation and maintenance of facilities | 2,986 | 4,882 | 3,954 | -19.01% |
| 25.7 - Operation and maintenance of equip | 46,675 | 50,528 | 53,675 | 6.23% |
| 26 - Supplies and materials | 6,201 | 7,000 | 7,693 | 9.90% |
| 31 - Equipment | 16,315 | 16,835 | 17,424 | 3.50% |
| 32 - Land and structures | 19,576 | 16,961 | 17,809 | 5.00% |
| 42 - Insurance claims and indemnities | 75 | 50 | 50 | 0.00% |
| **Total Budget Authority** | **$673,716** | **$775,329** | **$830,281** | **7.09%** |
| | | | | |
| Budget Activities: | | | | |
| Supervise | 565,921 | 647,400 | 693,285 | 7.09% |
| Regulate | 87,583 | 102,343 | 109,597 | 7.09% |
| Charter | 20,212 | 25,586 | 27,399 | 7.09% |
| **Total Budget Authority** | **$673,716** | **$775,329** | **$830,281** | **7.09%** |

## 2.3 – Resource Detail Table

| | FY 2008 Obligated | | FY 2009 Estimated | | FY 2010 Estimated | | % Change FY 2009 to FY 2010 | |
|---|---|---|---|---|---|---|---|---|
| | FTE | Amount | FTE | Amount | FTE | Amount | FTE | Amount |
| Budgetary Resources: | | | | | | | | |
| Revenue / Offsetting Collections | | | | | | | | |
| Assessments | | $716,448 | | $756,800 | | $810,500 | | 7.10% |
| Interest | | 21,349 | | 25,500 | | 26,300 | | 3.14% |
| Other Income | | 2,615 | | 1,700 | | 1,700 | | 0.00% |
| Total Revenue / Offsetting Collections | | $740,412 | | $784,000 | | $838,500 | | 6.95% |
| Unobligated balances, Start of year | | 667,661 | | 660,261 | | 668,932 | | 1.31% |
| Recoveries of prior year obligations | | 0 | | 0 | | 0 | | 0.00% |
| Net transfers *(includes capital transfers)* | | 0 | | 0 | | 0 | | 0.00% |
| Total budgetary resources available | | $1,408,073 | | $1,444,261 | | $1,507,432 | | 4.37% |
| Expenses/Obligations | | | | | | | | |
| Supervision | 2,546 | 565,921 | 2,597 | $647,400 | 2,626 | 693,285 | 1.12% | 7.09% |
| Regulate | 394 | 87,583 | 435 | 102,343 | 440 | 109,597 | 1.15% | 7.09% |
| Charter | 91 | 20,212 | 95 | 25,586 | 95 | 27,399 | 0.00% | 7.09% |
| Total Expenses / Obligations | 3,031 | $673,716 | 3,127 | $775,329 | 3,161 | $830,281 | 1.09% | 7.09% |
| Net Results | | $734,357 | | $668,932 | | $677,151 | | 1.23% |

## 2B – Appropriations Language and Explanation of Changes

OCC receives no appropriations from Congress.

## 2C – Legislative Proposals

OCC currently has no legislative proposals.

## Section 3 – Budget and Performance Plan

This table lists all FY 2010 resources by strategic goal, objective and outcome outlined in the FY 2007-2012 Treasury Department Strategic Plan. The Treasury Strategic Plan is a corporate level plan for the Department that provides a description of what the agency intends to accomplish over the next five years.

For detailed information about the FY 2007-2012 Treasury Strategic Plan, please go to: http://www.treasury.gov/offices/management/budget/strategic_plan.shtml

### 3.1 – Budget by Strategic Outcome

Dollars in Thousands

| Treasury Strategic Outcome | FY 2009 Enacted | FY 2010 Request | Percent Change |
|---|---|---|---|
| Economic competitiveness | 127,929 | 136,996 | **7.1%** |
| Fin. & econ. Crises | 647,400 | 693,285 | **7.1%** |
| **Total** | **$775,329** | **$830,281** | **7.1%** |

**3A – Supervise** *($647,400,000 from reimbursable programs):* The Supervise program consists of those ongoing supervision and enforcement activities undertaken to ensure that each national bank is operating in a safe and sound manner and is complying with applicable laws, rules, and regulations relative to the bank and the customers and communities it serves. This program includes bank examinations and enforcement activities; resolution of disputes through the National Bank Appeals process; ongoing monitoring of banks; and analysis of systemic risks and market trends in the national banking system or groups of national banks, the financial services industry, and the economic and regulatory environment.

### 3.2.1 – Supervise Budget and Performance Plan

| Supervise Budget Activity | | | | | |
|---|---|---|---|---|---|
| **Resource Level** | **FY 2006 Obligated** | **FY 2007 Obligated** | **FY 2008 Obligated** | **FY 2009 Estimated** | **Y 2010 imated** |
| Appropriated Resources | $0 | $0 | $0 | $0 | $0 |
| Reimbursable Resources | $471,882 | $528,622 | $565,921 | $647,400 | $693,285 |
| **Total Resources** | **$471,882** | **$528,622** | **$565,921** | **$647,400** | **$693,285** |
| | | | | | |
| **Budget Activity Total** | **$471,882** | **$528,622** | **$565,921** | **$647,400** | **$693,285** |

| Budget Activity | Performance Measure | FY 2006 Actual | FY 2007 Actual | FY 2008 Actual | FY 2009 Target | FY 2010 Target |
|---|---|---|---|---|---|---|
| Supervise | Percentage of national banks that are categorized as well capitalized (%) (Oe) | 99.00 | 99.00 | 99.00 | 95.00 | 95.00 |
| Supervise | Percent of national banks with composite CAMELS rating of 1 or 2 (%) (Oe) | 95.00 | 96.00 | 92.00 | 90.00 | 90.00 |
| Supervise | Rehabilitated national banks as a percentage of the problem national banks one year ago (CAMELS 3, 4 or 5) (%) (Oe) | 46.00 | 52.00 | 47.00 | 40.00 | 40.00 |
| Supervise | Percentage of national banks with consumer compliance rating of 1 or 2 (%) (Oe) | 94.00 | 97.00 | 97.00 | 94.00 | 94.00 |
| Supervise | Total OCC costs relative to every $100,000 in bank assets regulated. ($) (E) | 8.57 | 8.89 | 8.39 | 9.22 | 9.22 |

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

*Well Capitalized National Banks* - 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, 2008, 99 percent of national banks were classified as well capitalized. National banks' capital has remained at this consistently high level for the past several years.

*National Banks with Composite CAMELS Rating of 1 or* 2 - The composite CAMELS (**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. 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, 2008, 92 percent of national banks earned composite CAMELS rating of either 1 or 2, signifying an overall safe and sound national banking system.

*Rehabilitated National Banks* - 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, 47 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. This exceeds the OCC's goal of 40 percent.

*National Banks with Consumer Compliance Rating of 1 or 2* - To ensure fair access to financial services and fair treatment of bank customers, the OCC evaluates a bank's compliance with consumer laws and regulations. Bank regulatory agencies use the Uniform Financial Institutions Rating System, Interagency Consumer Compliance Rating, to provide a general framework for assimilating and evaluating significant consumer compliance factors inherent in a bank. Each bank is assigned a consumer compliance rating based on an evaluation of its present compliance with consumer protection and civil rights statutes and regulations, and the adequacy of its operating systems designed to ensure continuing compliance. Ratings are on a scale of 1 through 5 in increasing order of supervisory concern. National banks continue to show strong compliance with consumer protection regulations with 97 percent earning a consumer compliance rating of either 1 or 2 through September 30, 2008.

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

**3B – Regulate** *($102,343,000 from reimbursable programs):* The Regulate program consists of those ongoing activities that result in the establishment of regulations, policies, operating guidance, and interpretations of general applicability to national banks. These regulations, policies, and interpretations may establish system-wide standards, define acceptable banking practices, provide guidance on risks and responsibilities facing national banks, or prohibit (or restrict) banking practices deemed to be imprudent or unsafe. This program 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.

### 3.2.2 – Regulate Budget and Performance Plan

| Regulate Budget Activity | | | | | |
|---|---|---|---|---|---|
| Resource Level | FY 2006 Obligated | FY 2007 Obligated | FY 2008 Obligated | FY 2009 Estimated | FY 2010 Estimated |
| Appropriated Resources | $0 | $0 | $0 | $0 | $0 |
| Reimbursable Resources | $70,992 | $91,296 | $87,583 | $102,343 | $109,597 |
| **Total Resources** | **$70,992** | **$91,296** | **$87,583** | **$102,343** | **$109,597** |
| | | | | | |
| **Budget Activity Total** | **$70,992** | **$91,296** | **$87,583** | **$102,343** | **$109,597** |

| Budget Activity | Performance Measure | FY 2006 Actual | FY 2007 Actual | FY 2008 Actual | FY 2009 Target | FY 2010 Target |
|---|---|---|---|---|---|---|

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

There are no measures specified at this time.

**3C – Charter** *($25,586,000 from reimbursable programs):* The Charter program involves those ongoing activities that result in the chartering of national banks as well as the evaluation of the permissibility of structures and activities of national banks and their subsidiaries. This includes the review and approval of new national bank charters, federal branches and agencies, mergers, acquisitions, conversions, business combinations, corporate reorganizations, changes in control, operating subsidiaries, branches, relocations, and subordinated debt issues.

## 3.2.3 – Charter Budget and Performance Plan

| Charter Budget Activity | | | | | |
|---|---|---|---|---|---|
| **Resource Level** | **FY 2006 Obligated** | **FY 2007 Obligated** | **FY 2008 Obligated** | **FY 2009 Estimated** | **0 d** |
| Appropriated Resources | $0 | $0 | $0 | $0 | $0 |
| Reimbursable Resources | $13,952 | $18,515 | $20,212 | $25,586 | $27,399 |
| **Total Resources** | **$13,952** | **$18,515** | **$20,212** | **$25,586** | **399** |
| | | | | | |
| **Budget Activity Total** | **$13,952** | **$18,515** | **$20,212** | **$25,586** | **399** |

| Budget Activity | Performance Measure | FY 2006 Actual | FY 2007 Actual | FY 2008 Actual | FY 2009 Target | 010 Target |
|---|---|---|---|---|---|---|
| Charter | Percentage of licensing applications and notices completed with established timeframes (%) (Oe) | 94.00 | 96.00 | 95.00 | 95.00 | 95.00 |

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

*Description of Performance:*

*Licensing Applications and Notices Completed within Time Frames*

The OCC's timely and effective approval of corporate applications contributes to the nation's economy by enabling national banks to complete various corporate transactions and introduce new financial products and services. Delays in providing prompt decisions on applications and notices can deprive a bank of a competitive or business opportunity, create business uncertainties, or diminish financial results. Time frames have been established for completing each type of application and notice. The OCC completed 95 percent of applications and notices within the time standard through September 30, 2008. Institutions receiving decisions on their corporate applications and notices rated the OCC's overall licensing services an average of 1.2. The licensing survey is based on a five-point rating scale, in which 1 indicates outstanding and 5 indicates significantly deficient.

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

## Section 4 – Supporting Materials

### 4A – Human Capital Strategy Description

The OCC has developed bureau-specific human capital goals to meet its overall strategic goals of ensuring the safety and soundness of national banks and maintaining an expert, highly motivated, and diverse workforce. The first is to align and employ the OCC workforce resources consistent with current and projected agency priorities. To help achieve this goal, on an annual basis, the OCC identifies business changes and imperatives, and assesses its current staffing structure to identify potential recruitment challenges and skills imbalances/gaps. The agency then develops strategies to meet these challenges and approve incentives specifically designed to address them. Other strategies include: 1) using all qualified personnel on priority assignments, realizing the increasing dependence and need for "fungibility" among and within various disciplines; 2) using the midsize/community banks area as the primary entry-level recruitment, training, and development vehicle to provide a diverse bank examiner selection pool for many departments and divisions in the bureau; and 3) identifying skill gaps and using them to establish recruitment and training priorities as part of the OCC's ongoing strategic planning process. The OCC has implemented a number of programs to increase and strengthen its examiner and leadership pools. The OCC has a highly successful college hiring and training team program to ensure a steady pipeline of entry-level bank examiners. Since the program's inception in FY 2003, almost 705 examiners have been hired, including more than 122 in FY 2008.

The OCC has focused heavily on recruiting the expertise needed to fill positions in the agencies Chief National Bank Examiner's office and Large Bank Supervision line of business. The OCC has also recognized the challenge of ensuring that it has the skill sets needed now and in the future to supervise the increasingly complex array of activities and businesses found in the national banking system. As a result, the OCC recently developed a framework to assess where and when specialized skills are needed and to ensure it has the staffing necessary to meet those needs. This framework, the Specialty Skills Assessment, allows the OCC to measure gaps in its current skill levels in eight critical business areas (Asset Management, Bank Information Technology, Capital Markets, Compliance, Commercial Lending, Retail Lending, Mortgage Banking, and Operational Risk) and to develop strategic plans to fill those gaps. It establishes a standard process to identify an individual's specialty skills, which can be compared to actual examination resources necessary for the effective supervision of national banks.

Assessment results will aid examination staffing and recruiting initiatives, and provide employees and managers with a valuable tool that can be used to identify developmental opportunities to further an individual's career objectives.

In further recognition of the need to provide expert-level support related to the current financial and housing market situations, the OCC requested and was granted authority to waive the dual compensation reduction to reemploy certain annuitants. The extensive knowledge and superior skills reemployed annuitants have developed in specific specialty areas are an invaluable resource.

A second human capital goal is to develop current and future leaders who demonstrate strong strategic, people management, and technical skills.  To achieve this goal, the OCC is piloting a leadership development program, LeaderTRACK, based on identified competencies.  The program, which began in FY 2007, offers participants three six-month assignments, with significant managerial and supervisory roles, that will develop leadership skills rather than prepare them for a specific position.  There have been ten participants in this program since its inception.  The OCC also continues to focus on aligning leadership performance expectations with organizational goals, and preparing leaders to create and sustain a productive work environment and assume responsibility for developing staff.

The OCC operates under a merit-based pay and performance system.  Annual across-the-board increases are not granted.  Salary increases are awarded based on merit to reward employee performance, employee development that is relevant to the OCC's needs, and employee contributions to the OCC's priorities.

Therefore, a third human capital goal is to maintain strategic compensation/benefit programs and performance systems that link with organizational goals and mission accomplishment, enable the OCC to recruit and retain critical positions, and reward high performers.  To assure the agency accomplishes this goal, the OCC has begun a study of the compensation program to assess the appropriateness of the pay bands, evaluate the relationship between performance management and merit pay systems, and evaluate the current compensation policies and programs to ensure they support the OCC in attracting, retaining, and motivating a high-caliber workforce.

The OCC is confident these strategies will enable it to avoid any critical deficiencies in terms of having the right numbers of people with the right skills to accomplish its mission.

*The OCC Makes Top Ten List of Best Places to Work in Federal Government* - The OCC ranked fourth out of more than 222 federal agency sub-components for best places to work in the federal government in 2006, according to the Partnership for Public Service and American University's Institute for the Study of Public Policy Implementation.  The list reflects the responses of more than 221,000 randomly selected federal employees who completed the Office of Personnel Management's 2006 Federal Human Capital Survey.  The list compares agencies in effective leadership, employee skills/mission match, family friendly culture, pay and benefits, performance-based rewards and advancement, strategic management, support for diversity, teamwork, training/development, and work/life balance.

## 4.1 – Summary of IT Resources Table

| Information Technology Investments (from Exhibit 53) * | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | % Change from | | % Change from | | % Change from |
| (Dollars in thousands) | | FY 2007 | FY 2008 | FY07 to FY08 | FY 2009 | FY08 to FY09 | FY 2010 | FY09 to FY10 |
| Major IT Investments / Funding Source | Budget Activity | Obligated | Obligated | | Estimated | | Estimated | |
| WISDM *** | OCC - Supervise | 0 | 0 | 0.0% | 1,300 | 0.0% | 1,339 | 3.0% |
| Fiscal Management *** | OCC - Manage | 1,149 | 1,839 | 60.1% | 2,098 | 14.1% | 1,930 | -8.0% |
| Subtotal, Major IT Investments ** | | $1,149 | $1,839 | 60.1% | $3,398 | 184.8% | $3,269 | -3.8% |

***/ Beginning in FY 2009, OCC will report 1 major investment to Treasury (FISCAL MANAGEMENT). WISDM will be reported as part of the consolidated Treasury Enterprise Content Management 300.

### 4B – Information Technology Strategy

The OCC's capital planning process ensures that all Information Technology (IT) investments are aligned with its mission, goals, and objectives, and target architecture before a project is selected for funding.  The capital planning process ensures business cases are reviewed to leverage opportunities to use existing technology, to capitalize on enterprise opportunities as well as ensure there are no redundancy in IT systems that are considered for the portfolio.

The Department's overall strategy to effectively use technology to support the mission, goals, and objectives of the agency is enforced by the Investment Review Board (IRB), comprised of business unit and IT representatives from across the agency.  The IRB makes recommendations to the OCC's Technology and Systems Subcommittee (TSS). Both the IRB and TSS meet regularly to select, monitor, and control IT investments. This process ensures that the overall IT strategy has adequate funding, resources, and prioritization.

Linkage to the OCC programs and strategic goals are documented in each project business case and prioritized by the IRB and TSS.  Performance metrics are linked to the delivery, alignment, and achievement of the OCC strategic program objectives.  Treasury's CIO Council reviews the OCC's IT investments quarterly.

In FY 2008, OCC implemented the Workflow and Information Systems and Document Manager (WISDM).  WISDM streamlines the Large Bank Supervision supervisory processes, improves collaboration, and enhances the security of sensitive documents while providing the OCC management greater visibility into the status of ongoing examinations.  The system will provides LBS examiners and management the ability to collaboratively develop, securely store, search, and report on the status of their work documents.

<u>Homeland Security Presidential Directive 12 (HSPD-12) and Federal Information Security Management Act (FISMA)</u> - In FY 2008, the OCC continued to develop an HSPD-12 program for Smartcard ID issuance and subsequent use of that card for both physical access to OCC facilities and logical access to OCC information systems.  The OCC continued its close coordination with the Treasury HSPD-12 Program Management Office and General Services Administration (GSA) Managed Service Office to implement the Treasury Enterprise Solution for HSPD-12.  This Treasury Department and GSA solution will satisfy goals pertaining to the E-Government initiatives for sharing government-wide services and those goals relating to ensuring the interoperability of the HSPD-12 credentials across the government.

The OCC acquired and installed the necessary equipment for a card enrollment and activation station in the headquarters facility in FY 2008 and began issuing HSPD-12 compliant credentials to employees.  The OCC also established an HSPD-12 lab and began developing and testing solutions for using the new Smartcard IDs with the bureau's nation-wide Physical Access Control System (PACS).  In FY 2009, the OCC will continue to work with the Treasury Department and GSA to establish a complete program that meets the mandate of HSPD-12.

In FY 2008, the OCC Information Security program expanded to enable increased focus on policy, compliance, training, technical oversight and audit.  A revised FISMA-compliant IT Security Policy was published.  In addition to aligning the OCC information security program with FISMA requirements, the new security policy establishes a framework for addressing other information security related issues.

Technical capabilities and new engineering resources were leveraged this fiscal year for proactively detecting and responding to computer security incidents, including coordination with other OCC units, the Treasury Computer Incident Response Center and the Treasury Office of the Inspector General.  The OCC information infrastructure components and major computer applications are regularly assessed for risk, including undergoing full, National Institute of Standards and Technology compliant continuous monitoring.  A security training program is provided for all employees and contractors, including plans and programs of specialized security training for employees and contractors with particular security-related responsibilities.

## 4.2 – Program Assessment Table

**Program Name: Bank Supervsion**

**OMB Major Findings/Recommendations**

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

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

**Bureau Actions Planned or Underway**

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

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