



# Office of Thrift Supervision

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## Mission Statement

To supervise savings associations and their holding companies in order to maintain their safety and soundness and compliance with consumer laws and to encourage a competitive industry that meets America's financial services needs.

## Program Summary by Budget Activity

Dollars in Thousands

Appropriation	FY 2008	FY 2009		FY 2010	
Office of Thrift Supervision	Obligated	Estimated	Estimated	\$ Change	% Change
Supervision of the Thrift Industry	\$245,699	\$246,706	\$181,000	(\$65,706)	-26.63%
<b>Total Appropriated Resources</b>	<b>\$245,699</b>	<b>\$246,706</b>	<b>\$181,000</b>	<b>(\$65,706)</b>	<b>-26.63%</b>
<b>Total FTE</b>	<b>1,029</b>	<b>1,095</b>	<b>847</b>	<b>(248)</b>	<b>-22.65%</b>

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

## FY 2009 Priorities

OTS's FY 2009 Priorities are set forth below:

- Comprehensive Risk Focused Examinations that Focus on Core Risk Areas:
  - Interest Rate Risk and Credit Risks,
  - Compliance Risks, Anti-Money Laundering and Financial Crimes,
- Strengthening Thrift Industry Guidance including:
  - Regulations on Prohibitions Relating to Unfair or Deceptive Acts and Practices,
  - Loss Mitigation Strategies to Prevent Mortgage Foreclosures when Appropriate,
- Disaster and Emergency Preparedness,
- Global Financial Services,
- Regulatory Burden,
- Communicating the Benefits of the Thrift Charter, and
- Succession Planning and Management of OTS Resources.

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## **Section 1 – Purpose**

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

Established by Congress as a bureau of the Department of the Treasury on August 9, 1989, the Office of Thrift Supervision (OTS) charters, examines, supervises, and regulates federal savings associations insured by the Federal Deposit Insurance Corporation (FDIC). OTS's primary statutory authority is the Home Owners' Loan Act originally enacted in 1933. OTS also examines, supervises, and regulates state-chartered savings associations insured by the FDIC and provides for the registration, examination, and regulation of savings and loan holding companies (SLHCs) and other affiliates.

The thrift charter has several unique characteristics including nationwide branching under a single charter; a holding company structure offering a single regulator for the holding company and its subsidiary depository institutions; and preemption authority. OTS is the only federal banking agency that both charters depository institutions and supervises their holding companies. The thrift charter continues to flourish as institutions change and adapt their business strategies and focuses. OTS-supervised holding companies are diverse, ranging from large, multinational corporations to small companies with few assets other than their thrift charter.

As of September 30, 2007, OTS oversaw 831 thrifts with total assets of \$1.57 trillion; OTS also supervised 470 holding company enterprises with approximately \$8.5 trillion in U.S. consolidated assets.

As of September 2008, OTS regulated 818 thrifts at the end of the fiscal year with total assets of \$1.18 trillion; OTS also supervised 469 holding company enterprises with approximately \$8.1 trillion in U.S. consolidated assets.

Capital measures for the thrift industry continued to be strong, stable and well in excess of minimum requirements; 97.8% of all OTS-regulated thrifts, holding 99.3% of industry assets, exceeded "well-capitalized" regulatory standards.

OTS Vision, Strategic Goals and Priorities - OTS's vision is to perform and be recognized as the premier regulator of financial institutions and their holding companies. The FY 2009 budget submission is guided by the four strategic goals outlined in OTS's 2007-2012 Strategic Plan.

- A safe and sound thrift industry.
- Fair access to financial services and fair treatment of thrift customers.
- A flexible legal and regulatory framework that enables the thrift industry to provide a full competitive array of financial services.
- A professional, highly motivated, and diverse workforce that effectively uses OTS resources to provide exceptional service to its customers.

OTS's FY 2009 budget of \$246.706 million supports OTS's efforts to address these key strategic issues and challenges:

- Examine, supervise, and regulate thrifts and their holding companies.
- Assess the risk profile of the institution when planning examinations and focus the examination based on the institution's risk, size, and complexity.
- Provide regulatory guidance to thrifts and their holding companies.
- Encourage thrifts to pursue loss mitigation strategies to prevent mortgage foreclosures when appropriate.
- Conduct safety and soundness examinations of savings associations every 12-18 months that incorporate an assessment of compliance with consumer protection laws and regulations.
- Promote the reduction of regulatory burden.
- Coordinate supervisory and policy development activities with domestic and foreign financial regulators.
- Abate money laundering and terrorist financing by examining savings associations for compliance with the Bank Secrecy Act, the USA Patriot Act, and other anti-money laundering laws.
- Communicate the benefits of the thrift charter and the important role of community-based thrifts including minority based institutions.
- Continue efforts to implement the international Basel II risk-based capital framework.
- Address succession planning.

## **1B – Program History and Future Outlook**

OTS is headquartered in Washington, D.C. with five regional offices located in Atlanta, Chicago, Dallas, Jersey City and San Francisco. The headquarters office develops nationwide policies and programs for the agency and coordinates the operations of OTS. The regional offices examine and supervise institutions and process most applications. Approximately 70 percent of OTS's staff works in the OTS regional offices.

The President, with Senate confirmation, appoints OTS's Director for a 5-year term. OTS's Director also serves as a member of the Board of Directors of the Federal Deposit Insurance Corporation (FDIC), a member of the Federal Financial Institutions Examination Council (FFIEC), and a director of NeighborWorks® America.

The following activities highlight OTS's 2008 accomplishments and 2009 strategic priorities.

Comprehensive and Risk Focused Examinations that Focus on Core Risk Areas -  
OTS conducts comprehensive examinations combining safety and soundness and compliance reviews to eliminate multiple reviews of the same area for different

purposes. OTS's examination teams issue one report of examination that covers both compliance and safety and soundness. This approach allows OTS to comprehensively assess an institution's risk management programs, business strategy, and operations with a top-down, risk-focused approach that promotes comprehensive compliance management, including the establishment of adequate internal controls to ensure regulatory compliance and to prevent predatory practices.

OTS is more efficient and has reduced regulatory burden due to its comprehensive examination approach. OTS issues one information request package prior to the start of each examination and examines lending portfolios from the compliance and safety and soundness perspectives. This comprehensive approach reduces savings association cost and burden while promoting an efficient, risk-focused examination report that details all exam findings. The majority of OTS-regulated institutions are in favor of the comprehensive examination approach.

To maintain its rigorous staff accreditation standards, OTS requires that its examiners: 1) undergo formal, informal, and independent training, 2) pass proficiency tests, 3) receive on-the-job training to become proficient in examination disciplines, and 4) serve as examiner-in-charge of at least two comprehensive examinations prior to accreditation. OTS continually works to provide specialized training and rigorous accreditation and professional development programs to ensure OTS is capably equipped to supervise a dynamic and growing industry.

Interest Rate Risk and Credit Risks - OTS closely monitors interest rate risk due to the thrift industry's natural concentration in longer-term mortgage loans, which are generally funded with shorter-term deposits and borrowings. OTS's enhanced Net Portfolio Value (NPV) Model provides an accurate estimate of each institution's interest rate risk profile. More importantly, the NPV model gives OTS the ability to value a much wider range of financial instruments and the capability to produce a series of reports that focus on areas such as net interest income, liquidity, and value-at-risk. The enhanced NPV Model solidifies OTS's position as an industry leader in the high quality measurement of interest rate risk.

Alternative or nontraditional mortgage lending products present a unique intersection of credit and interest rate risks. In 2006 the federal financial regulatory agencies; the FDIC, Board of Governors of the Federal Reserve System (FRB), National Credit Union Administration (NCUA), OCC, and OTS issued guidance to address the risks posed by these types of loans. On May 22, 2008, the agencies issued final illustrations for helping consumers understand certain hybrid adjustable rate mortgage (ARM) products. OTS maintains a staff of specialists in capital markets, accounting, mortgage banking, alternative mortgage products, and credit cards to assist in identifying, assessing and mitigating interest rate and credit risks.

In addition to these risk mitigation and monitoring programs, the thrift industry's relatively high capital ratio in the aggregate acts as a further mitigating factor helping the industry address potential credit quality problems from a position of strength. OTS has been and will continue to work with the industry to remain focused on appropriate capital levels commensurate with the risk profile.

Compliance Risks, Anti-Money Laundering, and Financial Crimes - OTS compliance examination procedures direct institutions to identify, monitor and mitigate their compliance risks to ensure compliance with the broad range of consumer protection laws and regulations. OTS examiners regularly assess thrift institutions' compliance programs during comprehensive examinations. For example, OTS's compliance program is structured to ensure that thrifts maintain systems and controls to fight identity theft, and ensure the accuracy of consumers' credit reports. OTS reviews data security at thrifts and third party technology service providers. (The Gramm-Leach-Bliley Act requires that all financial institutions establish a program to protect their customers' personal information).

As outlined in OTS's 2007-2012 Strategic Plan, a primary strategy for meeting the goal of a safe and sound thrift industry includes effective examination for potential money laundering, terrorist financing and Bank Secrecy Act (BSA) compliance issues in OTS-supervised institutions. OTS continues to examine for compliance with BSA, the USA Patriot Act, and other anti-money laundering provisions. The examination process consists of on-site examinations that are conducted every 12-18 months, supplemented by off-site monitoring and follow-up to address identified supervisory issues. OTS has expanded supervisory resources in this area by hiring additional, experienced compliance examiners and compliance specialists. Further, to enhance examiner expertise, the second Advanced BSA/AML Specialists Conference hosted by the federal banking agencies in October 2008 focused on emerging money laundering and terrorist financing risks.

OTS has worked with the other federal banking agencies, the Financial Crimes Enforcement Network (FinCEN), the Office of Foreign Assets Control (OFAC), and the Conference of State Bank Supervisors (CSBS) to ensure examination consistency and to provide guidance to financial institutions for developing policies and programs to comply with anti-money laundering requirements.

FinCEN sponsors the Bank Secrecy Act Advisory Group (BSAAG), which has established several committees to discuss BSA compliance issues among regulators, the banking industry, and law enforcement. OTS' staff serve on several of these committees. OTS is also working with the other federal banking agencies to develop an examiner risk scoping tool to enhance BSA examination efficiencies.

Strengthening Thrift Industry Guidance including Regulations on Prohibitions Relating to Unfair or Deceptive Acts and Practices - In the past, OTS has

exercised its rulemaking authority in the area of unfair or deceptive acts and practices to parallel the Federal Trade Commission's (FTC's) rules. In 1985 the FTC issued its Credit Practices Rule and OTS's predecessor agency, the Federal Home Loan Bank Board (FHLBB), issued a similar rule. The Credit Practices Rule prohibits creditors from using contract provisions considered to be unfair to consumers, requires creditors to advise consumers who co-sign obligations about their potential liability, and prohibits late charges in some situations.

OTS has supplemented its Credit Practices Rule with other regulations. These rules and regulations are unique among the federal banking agencies in the way they protect consumers. For example, OTS has a long-standing Advertising Rule, which prohibits savings associations from making any representation that is inaccurate or that misrepresents its services, contracts, investments, or financial condition. In addition, OTS has imposed consumer protections, not mandated by federal law, for home loans made by federal savings associations. These protections address the regulation of late charges, prepayment penalties, and adjustments to the interest rate, payment, or term to maturity. OTS issued a Nondiscrimination Rule that exceeded the federal fair lending laws by prohibiting additional forms of discrimination.

In August 2007, OTS sought to strengthen its unfair or deceptive acts and practices (UDAP) rules and requested public comment on a broad array of issues and practices including practices related to the marketing, originating and servicing of credit cards. The OTS, FRB, and the NCUA joined together in May 2008, to issue a proposed UDAP rule that focused on credit cards and overdraft protection programs. The UDAP rule was finalized on December 18, 2008. For credit cards, the rule addressed unfair practices in the areas of providing reasonable time periods for making payments, payment allocations, interest rate increases on outstanding balances, security deposits and fees charged to an account for the issuance of credit, and deceptive offers of credit. For overdraft protection services on deposit accounts, the rule addressed a consumer's ability to opt out of overdraft services and unfair fees for debit holds.

Loss Mitigation Strategies to Prevent Mortgage Foreclosures when Appropriate - OTS published its first Mortgage Metrics Report in July 2008. This report presented key performance data on first lien residential mortgages serviced by thrift institutions or their affiliates, and focused on delinquencies, loss mitigation actions, and foreclosures. On September 12, 2008, the OTS and Comptroller of the Currency (OCC) jointly issued the second Mortgage Metrics Report which included data thru June 2008. The combined report covers more than 90 percent of first lien mortgages held or serviced by federally regulated banks and thrifts. The combined portfolio in the report represents 34.7 million loans worth \$6.1 trillion. The Mortgage Metrics Report provides an additional tool to help examiners assess emerging trends, identify anomalies, compare thrift institutions to the rest of the industry, evaluate asset quality and loan-loss reserve needs, and



evaluate the effectiveness of loss mitigation actions. The September 12<sup>th</sup> report showed that:

- Actions by thrifts and national banks to prevent home mortgage foreclosures increased faster than new foreclosures.
- New loan modifications increased by more than 80 percent from January to June and increased by 56 percent from the first quarter to the second quarter.
- More than 9 out of 10 mortgages remain current.
- New loss mitigation actions increased more quickly than new foreclosures during the second quarter.

Disaster and Emergency Preparedness - OTS is actively involved in initiatives to address emergency and disaster preparedness. In October 2007, OTS urged thrifts in areas affected by the Southern California wildfires to consider all reasonable steps to meet customers' financial needs while maintaining standards of safety and soundness. OTS emphasized that thrifts in affected areas could:

- Consider temporarily waiving charges for late payments and penalties for early withdrawal of savings.
- Reassess the credit needs of their communities and offer prudent loans to help rebuild.
- Restructure borrowers' debt obligations, when appropriate, by adjusting payment terms.
- Solicit state and federal guarantees and other means to help mitigate excessive credit risks.
- Consider all available programs offered by the Federal Home Loan Banks.

For the past 20 years, OTS, in conjunction with the other FFIEC agencies, has issued guidance to the industry with regard to Disaster Recovery and Business Continuity Planning. During examinations, OTS reviews each institution's plan for continuity of operations and emergency preparedness. OTS participates on the Financial and Banking Information Infrastructure Committee to improve the reliability and security of the financial industry's infrastructure.

Global Financial Services - The Holding Company and International Division oversees OTS's global services. The European Union (EU) seeks to ensure that financial conglomerates domiciled outside EU member countries are subject to an equivalent level of supervision by foreign supervisors and to enhance coordination among relevant supervisors. OTS is the supervisor for U.S. thrift holding companies, including a number of financial conglomerates active in the EU. OTS was the first regulatory authority to be designated a consolidated coordinating regulator of a holding company with operations in the EU.

International Basel II Risk-Based Capital Framework - In late 2007, the FDIC, FRB, OCC, and OTS approved a final rule regarding the advanced approaches for computing large banks risk-based capital requirements. The rule became

effective in April 2008, and while it remains unclear when banks are expected to begin the multi-year transition process to full implementation, the federal banking agencies are continuing preparatory efforts towards that end.

On July 2, 2008, the Director of OTS approved an interagency notice of proposed rulemaking along with the FDIC, FRB and OCC that would, if finalized, offer savings institutions the option of adopting a less complex approach for calculating risk-based capital requirements under the Basel II capital framework. This "standardized" approach would be available to all banking organizations except those that meet the definition of a core banking organization (generally over \$250 billion in assets or \$10 billion in foreign exposures). Although the standardized approach is a less complex alternative than the advanced approach, it is more risk-sensitive and more complex than the existing risk-based capital rules. The existing rules will also remain in effect as an available option for all but the largest organizations.

Regulatory Burden - Under the Economic Growth and Regulatory Paperwork Reduction Act, enacted by Congress in 1996, federal banking agencies are required to review all of their regulations at least once every 10 years. In 2003, the agencies began a joint effort to categorize the regulations, publish the categories for comment, report to Congress on any significant issues raised by the comments, and eliminate unnecessary regulations. The first review was completed in 2006 as required under this law.

The federal banking agencies identified burdens that would require legislative changes to the underlying statutes before making changes to the regulations. These changes were presented to Congress as a list of consensus items that the national bank and thrift industries support. Congress passed the "Financial Services Regulatory Relief Act of 2006" on September 30, 2006, and it was signed into law on October 13, 2006. This law provides regulatory burden relief for the financial services, banking, and thrift industries. The law allows regulators to adjust exam cycles of healthy institutions for greater efficiency and modernizes record keeping requirements for regulators.

Communicating the Benefits of the Thrift Charter - The thrift charter provides advantages in the delivery of financial services, primarily for community-based lenders. OTS has a unique supervisory role in that it monitors and regulates all aspects of an institution's operations and holding company affiliate activities. OTS regularly attends financial services industry conferences and has developed a booth that is used to highlight aspects of its oversight program; the booth also details aspects of the thrift charter that set it apart from other charter options.

#### Succession Planning and Management of OTS Resources

Thirty-five percent of OTS's current staff will be eligible to retire by year-end 2010. Thus, OTS faces the challenge of competing for, training, and retaining its human resources to build the workforce required for the future. To meet this

need, OTS has successfully recruited 165 new examination staff members since 2006. The current retention rate for these individuals is 93%.

To achieve full accreditation and gain expertise, examiners engage in a multi-year training program, pass proficiency tests, participate in on-the-job instruction and developmental assignments, and serve as Examiner-In-Charge on at least two comprehensive examinations. During FY 2008, classroom training addressed the needs of pre-accredited examiners in their various stages of advancement. Courses included New Thrift Regulator School, Loan Analysis School, Information Technology Risks and Controls, Real Estate Appraisal Review and compliance courses. OTS also offered courses and seminars in advanced examiner topics, management and leadership topics, ethics and information security. OTS's blend of regulatory and non-regulatory training and development keep OTS's employee competencies current and relevant to industry needs. During FY 2008, nine examiners were accredited, increasing the accredited examiner staff to 414.

OTS receives no appropriated funds from Congress; its revenue is derived principally from assessments on savings associations and savings and loan holding companies. While the FY 2009 projected assessment revenue is consistent with FY 2008 levels, OTS continues to monitor the impact of recent thrift failures and ongoing industry consolidation, driven in part by the current financial crisis. The bureau has experienced surpluses in recent years which led to an increase in the agency's cash reserves, in excess of \$200 million. Existing reserves will be sufficient to cover any FY 2009 shortfall. In addition, OTS is limiting new hires and prudently managing other expenses to adjust to any revenue reductions. With efficient operations and demonstrated prudent use of funds, OTS will be able to continue supervising savings associations and holding companies while maintaining the safety and soundness of the thrift industry for years to come.

## **1C – Industry Outlook**

The United States economy is currently undergoing significant financial distress and the thrifts and banks engaged in home mortgage financing are feeling a disproportionate impact from the current economic crisis. In response to the decline in the housing market, OTS has urged thrifts to bolster reserves for potential loan losses by significantly adding to their loan loss provisions. OTS is also encouraging thrifts to strike the appropriate balance between working with distressed borrowers to restructure loans to prevent avoidable foreclosures and ensuring sufficient recoveries to avoid further erosions in capital.

During the six months that ended in September 2008, thrifts set aside \$21.9 billion in loan loss provisions, substantially increasing their reserves to 1.93%, a significant increase from .78% one year ago. The increase in reserves contributed

to a net loss of \$3.99 billion for the quarter ending September 30, 2008, but has strengthened the industry's ability to withstand foreseeable current and future challenges.

Capital levels for the industry remain stable and in excess of minimum requirements. At the end of September 2008, 97.8 percent of the thrift industry, holding 99.4 percent of industry assets, exceeded well-capitalized standards and only six thrifts were less than adequately capitalized. Thrifts are also participating in the Treasury's Capital Purchase Program (CPP), the initial component of the Troubled Asset Relief Program. Thrifts submit their CPP applications to the OTS, which reviews them and forwards them to Treasury with OTS's recommendation.

The thrift industry continues to remain focused on residential mortgage lending, with 45.8 percent of assets invested in one-to-four family mortgage loans as of the end of FY 2008. The volume of mortgage refinancing, as a percentage of total originations, remains strong as borrowers continue to convert adjustable rate mortgages to fixed rate mortgages.

OTS has worked closely with the industry to maintain the integrity and viability of the thrift charter uniquely focused on consumer and community lending as the industry continues to adapt to the evolving nature of the financial services business and the demands of its customers.

## Section 2 – Budget Adjustments and Appropriation Language

### 2.2 – Operating Levels Table

Bureau: Office of Thrift Supervision	FY 2008 Obligated	FY 2009 Estimated	FY 2010 Estimated	% Change FY 2009 to FY 2010
<b>FTE</b>	<b>1,029</b>	<b>1,095</b>	<b>847</b>	<b>-22.65%</b>
Object Classification:				
11.1 - Full-time permanent	114,509	127,329	104,000	-18.32%
11.3 - Other than full-time permanent	1,696	0	0	0.00%
11.5 - Other personnel compensation	28	54	0	-100.00%
11.8 - Special personal services payments	8,259	504	0	-100.00%
12 - Personnel benefits	54,779	60,585	33,000	-45.53%
13 - Benefits for former personnel	231	214	0	-100.00%
21 - Travel and transportation of persons	17,258	19,094	15,000	-21.44%
22 - Transportation of things	200	382	1,000	161.78%
23.2 - Rental payments to others	4,070	4,430	3,000	-32.28%
23.3 - Comm, utilities, and misc charges	3,754	5,168	5,000	-3.25%
24 - Printing and reproduction	254	223	0	-100.00%
25.1 - Advisory and assistance services	5,249	3,243	2,000	-38.33%
25.2 - Other services	6,037	5,303	4,000	-24.57%
25.3 - Other purchases of goods and services from Govt. accounts	4,340	5,289	4,000	-24.37%
25.4 - Operation and maintenance of facilities	10,198	5,380	4,000	-25.65%
25.7 - Operation and maintenance of equip	221	417	1	-99.76%
25.8 - Subsistence and support of persons	0	75	0	-100.00%
26 - Supplies and materials	2,071	2,904	2,000	-31.13%
31 - Equipment	10,323	4,871	3,000	-38.41%
32 - Land and structures	2,222	1,241	999	-19.50%
<b>Total Budget Authority</b>	<b>\$245,699</b>	<b>\$246,706</b>	<b>\$181,000</b>	<b>-26.63%</b>
Budget Activities:				
Supervision of the Thrift Industry	245,699	246,706	181,000	-26.63%
<b>Total Budget Authority</b>	<b>\$245,699</b>	<b>\$246,706</b>	<b>\$181,000</b>	<b>-26.63%</b>

### 2.3 – Resource Detail Table

Description	FY 2008 Actual	FY 2009 Estimated	FY 2010 Estimated	% Change FY 2009 to FY 2010
(Dollars in Thousands)				
<b>Summary of Revenue and Expenses:</b>				
<b>Revenue:</b>				
<b>Supervision</b>				
Assessments	\$245,175	\$227,750	\$170,000	-25.4%
Rental Income	5,020	\$5,100	\$5,000	-2.0%
Interest	8,818	\$9,000	\$4,000	-55.6%
Fees & Other	8,304	\$7,000	\$2,000	-71.4%
<b>Total Revenue</b>	<b>\$267,317</b>	<b>\$248,850</b>	<b>\$181,000</b>	<b>-27.3%</b>
<b>Expenses:</b>				
<b>Supervision</b>				
Compensation & Benefits	\$179,501	\$188,686	\$137,000	-27.4%
Travel & Transportation	17,316	\$19,476	\$16,000	-17.8%
Facilities	16,669	\$10,839	\$4,000	-63.1%
Other Services & Supplies	\$32,213	\$27,705	\$24,000	-13.4%
<b>Total Expenses</b>	<b>\$245,699</b>	<b>\$246,706</b>	<b>\$181,000</b>	<b>-26.6%</b>
<b>Net Results</b>	<b>\$21,618</b>	<b>\$2,144</b>	<b>\$0</b>	<b>0.0%</b>

### 2B – Appropriations Language and Explanation of Changes

OTS receives no appropriated funds from Congress.

## 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](http://www.treasury.gov/offices/management/budget/strategic_plan.shtml)

### 3.1 – Budget by Strategic Outcome

Dollars in Thousands

<b>Treasury Strategic Goal</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>Percent</b>
<i>Treasury Strategic Objective</i>	<b>President's Budget</b>	<b>Baseline</b>	<b>Change</b>
<i>Treasury Strategic Outcome</i>	<b>AMOUNT</b>	<b>AMOUNT</b>	<b>AMOUNT</b>
Economic competitiveness	24,670	18,100	-26.6%
Fin. & econ. crises	222,036	162,900	-26.6%
<b>Total</b>	<b>\$246,706</b>	<b>\$181,000</b>	<b>-26.6%</b>

**3A – Supervision of the Thrift Industry** (\$246,706,000 from reimbursable programs): OTS examines savings associations every 12 – 18 months for safety and soundness and compliance with consumer protection laws and regulations. During these exams, the association's ability to identify, measure, monitor, and control risk is evaluated, including the risk posed by other entities within the corporate structure. When weaknesses are identified, increased supervisory action, including additional field visits, accelerating the normal 12-18 month exam cycle, and/or enforcement action is taken.

OTS receives no appropriated funds from Congress; the revenue of the bureau is derived principally from assessments on savings associations and savings and loan holding companies. Other sources of income include fees, rents, and interest on investments. OTS has received unqualified opinions on its financial statements since being formed in 1989.

OTS's four strategic goals guide the annual budget activity:

*Strategic Goal 1: A safe and sound thrift industry.*

Through the examination process, OTS strives to anticipate, identify, understand, address and communicate to savings associations and their holding companies the safety and soundness risks posed by their operations, as well as noncompliance with safety and soundness and holding company regulations and guidance. OTS maintains a high level of communication with the industry, administers educational programs, and shares information on industry best practices and emerging risks. Each association's compliance with the requirements of the Bank Secrecy Act, the USA Patriot Act, and other anti-money laundering and anti-terrorism statutory and regulatory requirements is determined on an on-going

basis. OTS also incorporates applicable lessons learned from recent natural disasters and emergencies. Problem thrift situations are resolved in a timely fashion, and when possible, without loss to the deposit insurance fund.

*Strategic Goal 2: Fair access to financial services and fair treatment of thrift customers.*

OTS's Community Affairs Program supports the thrift industry's efforts to meet the convenience and needs of the communities they are chartered to serve; fulfill their Community Reinvestment Act (CRA) obligations; and provide safe and sound loans, investments and financial services for low and moderate income individuals, communities and areas of greatest need. OTS's Community Affairs staff works with savings associations, community-based organizations, government officials and others to promote partnerships and initiatives with savings associations at the local level to address and respond to community and economic development needs.

In addition, OTS promotes industry adoption of comprehensive compliance management programs and encourages associations to strategically develop the diverse opportunities presented by the communities they are chartered to serve.

OTS continues to take a lead role in addressing predatory and abusive lending practices, customer privacy, information security, and identity theft requirements. OTS also reinforces the importance of fair and honest treatment of consumers through appropriate supervisory and enforcement actions. OTS uses the application process to ensure savings associations have management programs that are responsive to the credit needs of their communities.

*Strategic Goal 3: A flexible legal and regulatory framework that enables the thrift industry to provide a full competitive array of financial services.*

OTS strives to increase efficiencies in regulating savings associations while maintaining effective supervision to ensure safety and soundness and consumer protection. To achieve this goal, OTS is improving the application process, limiting assessment rate increases, and reviewing statutes and regulations that may be duplicative or unnecessary. OTS conducts consolidated examinations that combine safety and soundness with compliance reviews to improve efficiency and reduce the amount of on-site examination time. OTS's regulations have been redesigned to make them easier to understand and to eliminate unnecessary restrictions that do not improve safety and soundness or protect consumers. OTS tailors examinations to the risk profile of each individual institution. These changes ensure that the examination process is responsive and enables the thrift industry to provide competitive financial services.

*Strategic Goal 4: A professional, highly motivated and diverse workforce that effectively uses OTS resources to provide exceptional service to its customers.*



OTS strives to maintain a workforce that is professional and well trained to regulate the thrift industry and to deal with the public in a professional, informed, and responsive manner. OTS provides the public with statistical reports, securities filings of OTS registrants, chartering records and other public information. OTS assists savings association customers with inquiries and complaints concerning savings associations.

OTS has developed a long-range staffing plan and a national training and development program to ensure that core programs are sufficiently staffed with properly trained and experienced personnel. OTS continues to foster an environment built on fairness, trust, respect, teamwork, communication, creativity, diversity, and empowerment. OTS has developed proactive initiatives focused on the retention of employees including mentoring, employee feedback, employee outreach, incentives, and recognition programs.

### 3.2.1 – Supervision of the Thrift Industry Budget and Performance Plan

Supervision of the Thrift Industry 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	\$199,497	\$218,129	\$245,699	\$246,706	\$181,000
<b>Total Resources</b>	<b>\$199,497</b>	<b>\$218,129</b>	<b>\$245,699</b>	<b>\$246,706</b>	<b>\$181,000</b>

<b>Budget Activity Total</b>	<b>\$199,497</b>	<b>\$218,129</b>	<b>\$245,699</b>	<b>\$246,706</b>	<b>\$181,000</b>
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Supervision of the Thrift Industry Budget Activity					
Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2010 Target
Total OTS costs relative to every \$100,000 in savings association assets regulated (\$) (E)	13.46	13.90	15.10	23.04	20.00
Percent of safety and soundness exams started as scheduled (%) (Ot)	93	95	94	94	94
Percent of thrifts that are well capitalized (%) (Oe)	99	99	99	99	99
Percent of thrifts with compliance examination ratings of 1 or 2 (%) (Oe)	94	93	97	97	97
Percent of thrifts with composite CAMELS ratings of 1 or 2 (%) (Oe)	94	93	93	93	93

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

Description of Performance - OTS met all of its performance measure targets for FY 2008 except for “Total OTS Cost per \$100,000 in Savings Association Assets Regulated,” which missed by only one-tenth of one percent (.1%). OTS is presently repositioning its resources to meet the requirements of supervising a smaller asset base. The FY 2009 Performance Budget describes the goals, strategies, and priorities that will guide OTS’s operations. The FY 2009 budget enables OTS to continue tailoring supervisory examinations to the risk profile of

the institutions, while effectively allocating resources to oversee and assess the safety and soundness and consumer compliance record of the thrift industry.

Percent of thrifts with composite CAMELS ratings of 1 or 2 - On December 9, 1996, the Federal Financial Institutions Examination Council (FFIEC) adopted the CAMELS rating system (Capital adequacy, Asset quality, Management, Earnings, Liquidity and Sensitivity to market risk) as the internal rating system to be used by the federal and state regulators for assessing the safety and soundness of financial institutions on a uniform basis. The CAMELS rating system puts increased emphasis on the quality of risk management practices. OTS assigns a composite CAMELS rating to savings associations at each examination. OTS adjusts the level of supervisory resources devoted to an association based on the composite rating. The CAMELS rating is based upon a scale of 1 through 5 in increasing order of supervisory concern.

Percent of thrifts with compliance examination ratings of 1 or 2 - The FFIEC first approved a uniform, interagency compliance rating system in 1980. The rating system reflects, in a comprehensive and uniform fashion, the nature and extent of a savings association's compliance with consumer protection statutes, regulations and requirements. The Compliance Rating System is based upon a scale of 1 through 5 in increasing order of supervisory concern.

OTS elected to combine safety and soundness and compliance examinations to attain exam efficiencies and to improve risk assessment. Using comprehensive exam procedures, compliance with consumer protection laws is reviewed at more frequent intervals, which has improved the quality of the examination process.

Percent of thrifts that are well capitalized - Capital absorbs losses, promotes public confidence and provides protection to depositors and the FDIC insurance fund. Capital provides a financial cushion that can allow a savings association to continue operating during periods of loss or other adverse conditions. The Federal Deposit Insurance Act established a system of prompt corrective action (PCA) that classifies insured depository institutions into five categories (well-capitalized; adequately capitalized; undercapitalized, significantly undercapitalized; and critically undercapitalized) based on their relative capital levels. The purpose of PCA is to resolve the problems of insured depository institutions at the least possible long-term cost to the deposit insurance fund.

Percent of safety and soundness exams started as scheduled - OTS examines savings associations every 12-18 months for safety and soundness, and compliance with consumer protection laws. OTS performs safety and soundness examinations of its regulated savings associations consistent with statutory authority. When OTS identifies safety and soundness or compliance issues during its risk-focused examinations, it acts promptly to ensure association management and directors institute corrective actions to address supervisory concerns. OTS

staff often meets with the savings association's board of directors after delivery of the Report of Examination to discuss findings and recommendations.

Total OTS costs relative to every \$100,000 in savings association assets regulated  
- Beginning in FY 2006, OTS included a performance measure that reflects the efficiency of its operations while meeting the increasing supervisory demands of a growing and more complex thrift industry. This measure supports OTS's ongoing efforts to efficiently use agency resources. The efficiency measure is impacted by the relative size of the savings associations regulated. Approximately 60 percent of all savings associations have total assets of less than \$250 million and are generally community-based organizations that provide retail financial services in their local markets. The measure does not include the assets of the holding company enterprises regulated by OTS.

For detailed information about each performance measure, including definition, verification and validation, please go to:

<http://www.treasury.gov/offices/management/dcfo/accountability-reports/2008-par.shtml>

## **Section 4 – Supporting Materials**

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### **4A – Human Capital Strategy Description**

Human capital represents OTS's primary resource for meeting its strategic objectives. Sustaining and nurturing human capital resources requires a blend of career building opportunities, competitive compensation, strategic and innovative training, and a diverse, supportive work environment.

OTS developed its Human Capital Strategic Plan in response to the President's Management Agenda. The Plan incorporates practical strategies to ensure that OTS has sufficient staff with the right skills to accomplish its mission. The Plan consists of four main strategic goals: Organizational Effectiveness, Recruitment and Diversity, Employee Retention and Satisfaction, and Technology Skills.

Thirty-five percent of OTS's current staff will reach retirement eligibility by year-end 2010. Over the past two years OTS successfully recruited 165 new examination staff members; in addition several key specialty positions were filled. OTS's compensation program continues to enable OTS to attract, retain, and reward staff comparable to the other federal banking agencies.

OTS continuously trains its examination staff to create a work force capable of performing multiple examination types (e.g., safety and soundness, compliance, information technology and FFIEC service provider examinations). OTS designs training programs to meet the challenges OTS faces with anticipated retirements as part of its overall succession planning program.

To meet the needs of the thrift industry, OTS seeks qualified and experienced as well as entry level candidates with diverse backgrounds. OTS is developing recruiting materials, attending job fairs including events targeting minority and women's groups, and working to provide both centralized and regional recruitment support to meet its various recruitment needs.

#### 4.1 – Summary of IT Resources Table

Dollars in Thousands

Information Technology Investments							
Major IT Investments / Funding Source	Budget Activity	FY 2007 & Earlier Enacted 1/	FY 2008 Enacted	FY 2009 President's Budget	% Change from FY08 to FY09	FY 2010 Requested	% Change from FY09 to FY10
Major IT Investments		\$0.0	\$0.0	\$0.0	0.0	0.0	0.0
Non-Major IT Investments							
Administrative - Mixed	Supervision	\$0.8750	\$0.8970	\$0.9190	2.4%	\$0.9420	2.5%
Examinations	Supervision	\$1.9250	\$1.9730	\$2.0220	2.4%	\$2.0730	2.5%
Thrift Financial Data	Supervision	\$3.8750	\$3.9720	\$4.0710	2.4%	\$4.1730	2.5%
TFR Validation	Supervision	\$1.5750	\$1.6140	\$1.6550	2.5%	\$1.6960	2.5%
Industry Structure and Tracking	Supervision	\$1.5750	\$1.6140	\$1.6550	2.5%	\$1.6960	2.5%
CIO Planning	Supervision	\$2.5490	\$2.6130	\$2.6790	2.5%	\$2.7460	2.5%
Total Non-Major IT Investments		\$12.4	\$12.7	\$13.0	2.4%	\$13.3	2.5%
Infrastructure Investments							
Treasury Consolidated Data Center & Services		\$5.0130	\$5.1390	\$5.2670	2.4%	\$5.3990	2.5%
Treasury Consolidated Telecommunications		\$1.7340	\$1.7770	\$1.8220	2.5%	\$1.8670	2.5%
Treasury Consolidated End User Services		\$3.3690	\$3.4530	\$3.5390	2.4%	\$3.6280	2.5%
Treasury Consolidated Security		\$0.0000	\$0.0000	\$0.0000	0.0%	\$0.0000	0.0%
Total Infrastructure Investments		\$10.1160	\$10.3690	\$10.6280	2.4%	\$10.8940	2.5%
Enterprise Architecture		\$0.1	\$0.2	\$0.2	2.7%	0.188	2.2%
Total IT Investments		\$22.6	\$23.2	\$23.8	2.4%	\$24.4	2.5%

#### **4B – Information Technology Strategy**

The OTS Information Technology Investment Review Board (IRB) provides overall direction and vision for how OTS's information technology should contribute to OTS's goals and objectives. It serves as the forum for senior OTS executives to make decisions regarding IT expenditures and investments.

OTS's Chief Information Officer is responsible for the policy, oversight, and improvement of all information systems as well as the information management and data communications used by OTS to carry out its mission. OTS's Chief Information Officer serves as the Executive Director of the IRB; OTS's Director serves as the IRB Chair.

The IRB meetings are incorporated into the Regional Managers meetings to ensure that all senior staff participates in the discussion of the IT program, its budget, projects, strategies, and priorities. Projects are evaluated annually during the budget cycle and can be terminated or funded for further development.

Information Technology projects completed during FY 2008 include:

- Conversion to a New Payroll System - Effective August 17, 2008, OTS converted from the current in-house payroll/personnel processing system to the Department of Agriculture's National Finance Center's (NFC) payroll and the Department of the Treasury's HR Connect System. This migration was a complex project; OTS, NFC, and Treasury teams managed the payroll migration and collaborated in a rigorous examination of the OTS requirements and processes. Detailed system testing was conducted prior to the "go live" date to ensure the accuracy of individual employees' payroll data.
- Security Monitoring - OTS implemented automated internal security controls to address risks, analyze threats, and respond to incidents. OTS implemented the Computer Incident Response Capability which performs incident response, reporting, management, and mitigation. Lessons Learned are developed for each incident.
- Privacy - OTS continues to actively manage privacy concerns. Two employees achieved the Certified Information Privacy Professional/Government credential. This credential is recognized as a measure of an individual's ability to assess privacy concerns. OTS evaluated all systems for privacy considerations using the Privacy Threshold Assessment tool. OTS has seven systems that require a Privacy Impact Assessment. These assessments are underway and, when complete, will be posted on OTS's web site. OTS chairs the Department of the Treasury's Personally Identifiable Information Risk Management Group.
- Training - OTS achieved 100 percent employee compliance on both the Annual Security Awareness and Annual Privacy Awareness training courses in FY 2008.

## **4B – Information Technology Strategy**

IT Projects planned to begin in FY 2009 include:

- Developing a new Business Resumption Program – OTS will begin developing an enhanced Business Resumption Program for its Mission Essential Functions. The purpose of this program is to raise our continuity of operation plan to the next level.
  - A business impact analysis will be performed across OTS systems based on the Mission Essential Function analysis.
  - Recovery strategies will be developed based on Recovery Point Objective and Recovery Time Objective needs.
  - IT Contingency Plans will be updated for all OTS systems; and,
  - Recovery strategies will be tested based on Business Resumption Program goals.
- Enhancing the Consumer Complaint Systems – During FY 2008, OTS initiated major improvements to its consumer complaint handling process. These improvements included establishing a new call center, assigning additional staff, and initiating the development of a new consumer complaint system. During 2009, OTS will deliver the new consumer complaint system along with other technology solutions. OTS will establish a new Call Log System that will improve efficiency and reduce errors in handling calls. The new system will track calls and generate reports that will provide management with information on the volume of calls and length of time needed to process and respond to calls.
- Replacing the Legal Tracking System - In 2009 OTS will begin to replace the Regional Legal Tracking system (RLT), a legacy application currently used by OTS's Chief Counsel's Office. Replacement of the RLT is necessary to accommodate retirement of the obsolete Alpha servers. OTS will evaluate commercial off-the-shelf case management products for possible purchase, consider the modification of an existing OTS system, and consider the development of a new system using Microsoft SharePoint.
- Training – During FY 2009 OTS employees will be required to complete on-line records management training.

OTS has no major IT investments planned for FY 2009.

## 4.2 – Program Evaluation Table

### Program Name: Thrift Supervision

Strategic Goal: Increase the reliability of the U.S. financial system (F3)

#### OMB Major Findings

1. The program purpose is clear.
2. The program developed new goals that are outcome-oriented and program measurements which are clear.
3. The program is efficiently and effectively managed.

#### OMB Recommendations

1. Federal banking regulatory agencies, including the OTS, the OCC, the NCUA, and the FDIC, work together to align outcome goals and related measures to allow for greater comparison of program performance in the industry.
2. OTS evaluates the efficiency and effectiveness of a single examination for both Safety and Soundness and Compliance functions.
3. OTS takes steps to examine long-term systemic risks in the industry.

#### OTS Actions Taken

1. OCC and OTS worked together throughout the strategic and performance planning efforts to ensure that their strategic goals were closely aligned. The banking regulatory agencies share their strategic and performance plans with each other and meet quarterly to discuss strategic and performance planning.
2. Based on feedback received over the past two years, the vast majority of the industry prefers the efficiency and effectiveness of a joint examination. OTS eliminated much of the redundancy of two separate exams. OTS will fulfill its statutory examination responsibilities with less FTEs as a result of this change.
3. During the 2007 strategic planning process, systemic risks were examined and addressed in the Plan.

#### OTS Actions Planned or Underway

1. OTS will continue to work with the OCC to ensure that strategic goals are closely aligned. OTS will continue to share its strategic and performance plans with the other banking regulatory agencies and meet to discuss strategic and performance planning.
2. OTS will continue to perform a joint examination.
3. OTS will continue to examine and address systemic risks.

For a complete list of program results visit the following website:

<http://www.whitehouse.gov/omb/expectmore/all.html>