Office of Comptroller of the Currency

Program Summary by Budget Activity

(Dollars in thousands)

Budget Activity	FY 2009 Actual	FY 2010 Estimated	FY 2011 Estimated	FY 2011 $ Change	FY 2011 % Change
Supervise	$597,859	$661,039	$694,220	$33,181	5.0%
Regulate	$94,511	$104,499	$109,744	$5,245	5.0%
Charter	$23,628	$26,125	$27,436	$1,311	5.0%
Total Cost of Operations	**$715,998**	**$791,663**	**$831,400**	**$39,737**	**5.0%**

Explanation of Budget Estimate

As of September 30, 2009, The Office of the Comptroller of the Currency (OCC) supervised approximately 1,564 national bank charters and 51 federal branches of foreign banks in the United States (U.S.). Total assets under the OCC supervision were approximately $8.3 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.

The OCC's priorities for fiscal year (FY) 2010 include supervisory issues related to continued adverse changes in national bank asset quality and risk profiles: working with the U.S. Treasury and other supervisors domestically and internationally to strengthen supervisory processes and banks' capital, liquidity, corporate governance, risk management practices; assessing the potential impact of, and ensuring national banks' compliance with any new applicable statutory, regulatory, and accounting standards; identifying and resolving potential problem banks at the earliest possible stage; further enhancing the OCC's supervisory analytical tools, including the joint OCC and Office of Thrift Supervision (OTS) mortgage metrics database and reports; and encouraging national banks to continue to meet the needs of credit worthy borrowers, including appropriate and effective residential mortgage modification programs, and ensuring that they comply with Community Reinvestment Act (CRA), fair lending, and other consumer protection laws and with BSA/AML and USA PATRIOT Act requirements.

Assessing the adequacy of national banks' credit and liquidity risk management and consumer compliance practices, and obtaining corrective action to address any identified safety and soundness and consumer compliance weaknesses will continue to be a major focus of the OCC on-site supervisory activities in FY 2010. Coordination and cooperation with state officials will be a significant focus for the agency. Maintaining and enhancing examiners' skill sets, 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.

In FY 2010, an estimated $791,663,000 is needed to fund ongoing OCC operations and address program priorities effectively. Estimated OCC revenue for FY 2010 is $827,100,000.

The OCC collects revenue primarily from semiannual assessments levied on national banks. The OCC receives no appropriated funds from Congress.

Information regarding the Administration's comprehensive regulatory reform proposals is provided in a separate budget chapter.

Purpose of Program

The OCC was created by Congress to charter national banks, oversee a nationwide system of banking institutions, and ensure national banks are safe and sound, competitive and profitable, and capable of serving in the best possible manner the banking needs of their customers.

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.

Explanation of Budget Activities

Supervise ($661,039,000 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.

Regulate ($104,499,000 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.

Charter ($26,125,000 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.

Capital Investments Summary

The OCC developed a Technology Vision 2012 Roadmap that aligns to the agency's core mission to ensure a safe and sound national banking system for all Americans. In addition, in FY 2009, the OCC established specific IT goals to leverage information technology as a strategic business enabler to support the OCC's strategic goals.

Even though there are no new major IT initiatives planned in FY 2010, the OCC will continue to implement the OCC Technology Vision 2012 Roadmap with a focus on enterprise data analytics and information sharing, optimizing technology solutions for the mobile workforce, aligning IT investment decision making with the enterprise architecture and business objectives and managing the risk to OCC assets and improving internal efficiency and effectiveness.

To address the challenges faced by the OCC mobile workforce, in FY 2010 the OCC will continue the Integrated - Mobile Employee Technical Refresh & Optimization (I-METRO) initiative. I-METRO will provide new laptops, PCs, and other peripheral devices and provide enhanced connectivity and mobile access. This initiative will reduce the costs of desktops, laptops and peripheral devices through a strategic sourcing service management approach. Examiners in the field will now have access to the best providers of wireless services commensurate with the geographic location of their bank examination.

The OCC will continue to modernize the agency's technical infrastructure. The Data Center Modernization & Optimization (DCM&O) initiative began in FY 2009 and focuses on the development and implementation of strategies and initiatives for infrastructure optimization. The DCM&O will maximize service delivery of the OCC data center and includes investing in human capital by addressing training needs; realigning multiple contract vehicles to better deliver core services and lower total cost of ownership for these services; and improving processes and reducing the number of servers to attain a "green" data center.

OCC Performance by Budget Activity

Budget Activity	Performance Measure	FY 2007	FY 2008	FY 2009			FY 2010	FY 2011
		Actual	Actual	Target	Actual	Target Met?	Target	Target
Supervise	Percent of national banks with composite CAMELS rating 1 or 2	96	92	90	82	N	90	90
Supervise	Percentage of national banks that are categorized as well capitalized	99	99	95	86	N	95	95
Supervise	Percentage of national banks with consumer compliance rating of 1 or 2	97	97	94	97	Y	94	94
Supervise	Rehabilitated national banks as a percentage of problem national banks one year ago (CAMEL 3,4, or 5) (%)	52	47	40	29	N	40	40
Charter	Percentage of licensing applications and notices completed within established timeframes	96	95	95	95	Y	95	95

Description of Performance

The Federal Deposit Insurance Act established a system that classifies insured depository institutions into five categories (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized) based on their capital levels relative to their risks. Through September 30, 2009, 86 percent of national banks were classified as well capitalized. This decline is reflective of the increasing number of problem national banks whose capital levels have been adversely affected by substantial asset quality problems or who may otherwise meet the minimum ratios to be considered Well Capitalized but are not considered so under Prompt Corrective Action as they are under a capital order, Cease and Desist, Formal Agreement or Prompt Corrective Action Directive to reflect increased risks to their capital. The OCC works closely with problem banks to develop rehabilitation plans. Such plans typically include directives to improve or restore capital levels. More broadly, the OCC is working with other regulators both domestically and internationally to strengthen capital standards and improve credit risk management practices.

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, 2009, 82 percent of national banks earned composite CAMELS rating of either 1 or 2. The increase in the number of banks with lower composite CAMELS ratings is not unexpected at this stage of the credit cycle and reflects impaired asset quality and earnings that is affecting many banks. Our primary focus is to ensure that CAMELS ratings are an accurate reflection of each bank's current financial position and thus we would not take action to prematurely restore a favorable CAMELS rating even though the current distribution of ratings is below our target. As bank performance and asset quality improves, we would expect CAMELS ratings to adjust accordingly.

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, 29 percent of banks with composite CAMELS ratings of 3, 4, or 5 one year ago have improved their ratings to either 1 or 2 this year. As with the other measures, this target benchmark has been adversely affected by the underlying economic conditions facing the banking industry. The number of serious problem banks, where successful resolution is more difficult, has increased. In addition, the sharp contraction in certain segments of the economy, including the real estate sector, has resulted in a more rapid deterioration in some banks' financial condition.

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, 2009.

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, 2009. Institutions receiving decisions on their cor-porate 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.

Beginning in FY 2006, the OCC implemented a performance measure that reflects the efficiency of its operations while meeting the increasing supervisory demands of a growing and more complex national banking system. 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.