

Office of Thrift Supervision

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
Supervision of the Thrift Industry	\$233,571	\$251,145	\$244,867	(\$6,278)	(2.5%)
Total Cost of Operations	\$233,571	\$251,145	\$244,867	(\$6,278)	(2.5%)

Explanation of Budget Estimate

The Office of Thrift Supervision (OTS) budget supports its strategic and performance goals that provide for the proactive supervision of the industry, reduced regulatory burden, and improved credit availability. The 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. OTS works closely with the industry to maintain the profitability, integrity, and viability of the thrift charter.

For FY 2010, OTS estimates that its revenues will total \$226,018,000 and its expenditures will be \$251,145,000. OTS receives no appropriated funds from Congress. The income 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.

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

Purpose of Program

OTS was established by Congress as a bureau of the Department of the Treasury on August 9, 1989. The bureau's mission is 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. OTS's vision is to perform, and to be recognized, as the premier regulator of financial institutions and holding companies.

OTS charters, examines, supervises, and regulates federal savings associations insured by the Federal Deposit Insurance Corporation (FDIC). 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.

Explanation of Budget Activities

Supervision of the Thrift Industry

(\$251,145,000 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.

The FY 2010 projected assessment revenue is lower than FY 2009 due to the impact of ongoing industry consolidation and recent thrift failures. 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 the FY 2010 shortfall. In addition, OTS is limiting permanent new hires and increasing term appointments to fill the need for increased supervision. Additionally, OTS is prudently managing other expenses. 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.

Capital Investments Summary

OTS has no major IT investments planned for FY 2010.

OTS 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
Supervision of the Thrift Industry	Percent of safety and soundness exams started as scheduled (%)	95	94	90	94	Yes	90	90
Supervision of the Thrift Industry	Percent of thrifts that are well capitalized (%)	99	98.4	95	97	Yes	95	95
Supervision of the Thrift Industry	Percent of thrifts with a compliance examination rating of 1 or 2 (%)	97	95.8	90	95	Yes	90	90
Supervision of the Thrift Industry	Percent of thrifts with composite CAMELS ratings of 1 or 2 (%)	93	90	90	84	No	80	80

Description of Performance

OTS will have met all goals relating to (1) Percent of safety and soundness exams started as scheduled (2) A Well-capitalized thrift industry, and (3) Percent of thrifts with COMPLIANCE exam ratings of "1" or "2." The targets for these measures will remain the same for FY 2010.

The fourth goal, Percent of thrifts with COMPOSITE ratings of "1" or "2" will be short approximately 6% of goal for FY 2009 – 84% compared to the performance goal of 90%. The target will not be met due to the challenging economic environment, a housing market downturn, rising unemployment, and lower real estate values. As a result, the banks are reporting an increase in troubled assets, delinquencies, charge-offs, and reserves which have adversely impacting earnings and return on equity. As long as economic challenges

continue in FY 2010, it will continue to impact our institution's performance.

OTS plans to maintain its current high level of achievement for its performance measures. The following is a brief description of each performance measure:

OTS examines savings associations every 12-18 months for safety and soundness, compliance and 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.

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.

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 in 2002 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.

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.

Beginning in FY 2006, OTS included an annual 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 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.