Office of Thrift Supervision

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

	FY 2009	FY 2010	FY 2011		
	Actual	Estimated	Estimated	$ Change	% Change
Supervision of the Thrift Industry	$233,571	$251,145	$244,867	($6,278)	(2.5%)
Total Resources	**$233,571**	**$251,145**	**$244,867**	**($6,278)**	**(2.5%)**
Total FTE	**1,051**	**1,065**	**1,082**	**17**	**1.6%**

FY 2010 Priorities

- Comprehensive Risk Focused Examinations that Focus on Core Risk Areas,
- Strengthening Thrift Industry Guidance,
- Disaster and Emergency Preparedness,
- Global Financial Services,
- Regulatory Burden,
- Communicating the Features of the Thrift Charter, and
- Succession Planning and Management of OTS Resources.

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

Table of Contents

Section 1 – Purpose

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). The OTS' primary statutory authority is the Home Owners' Loan Act originally enacted in 1933.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. The OTS is the only federal banking agency that both charters depository institutions and supervises their holding companies.

The number of thrifts supervised by OTS stood at 780 with assets of $1.07 trillion as of September 30, 2009. In addition, OTS supervised 452 holding company enterprises with approximately $5.5 trillion in U.S. domiciled consolidated assets. These enterprises owned 413 thrifts with total assets of $729 billion, or 68 percent of total thrift industry assets.

As of September 30, 2009, the majority of thrifts - 95.8 percent - held capital exceeding the "well capitalized" regulatory standards, suggesting that the industry's financial fundamentals remain solid.. Furthermore, these thrifts' combined assets represented 95.9 percent of industry aggregate assets.

<u>Office of Thrift Supervision Vision, Strategic Goals and Priorities</u>
OTS' vision is to perform and be recognized as the premier regulator of financial institutions and their holding companies. The FY 2010 budget submission is guided by the four strategic goals outlined in OTS' 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, and
- A professional, highly motivated, and diverse workforce that effectively uses OTS resources to provide exceptional service to its customers.

OTS’ estimated FY 2010 budget of $251 million supports the OTS’ 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,
- Continue efforts to implement the international Basel II risk-based capital framework,
- 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, and
- Address succession planning.

1B – Program History and Future Outlook

OTS is headquartered in Washington, D.C. with four regional offices located in Atlanta, Chicago, Dallas, and Jersey City. 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’ staff works in the OTS regional offices.

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

The following activities highlight OTS’ 2009 accomplishments and 2010 strategic priorities.

<u>Comprehensive and Risk Focused Examinations that Focus on Core Risk Areas</u>
OTS conducts comprehensive examinations combining safety and soundness and compliance reviews to eliminate multiple reviews of the same area for different purposes. OTS’ examination teams issue one report of examination that covers both compliance and safety and soundness. This approach allows OTS to comprehensively assess an

institutions' 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 on at least two examinations in their respective discipline 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 thrift 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' 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.

Alternative or nontraditional mortgage lending products present a unique intersection of credit and interest rate risks. 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. 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' 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' 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.

OTS has actively 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' staffs 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' 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 effort led to the Federal Reserve Board (FRB), and the National Credit Union Administration (NCUA) joining the OTS 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 prohibited: (1) increasing interest rates on existing card balances for consumers who are paying on time; (2)using billing practices that require consumers to pay finance charges on their balances from previous billing cycles; (3) charging consumers up-front fees that significantly erode the amount of available credit; and (4) applying payments first to balances with the lowest interest rates – leaving balances with higher rates accruing, thereby creating higher costs for consumers; and (5) failing to give customers a reasonable amount of time to make payments.

In 2009, Congress also focused on these practices when it enacted the Credit Card Accountability, Responsibility and Disclosure Act – or "Credit CARD Act" – which provides additional protections for consumers. For example, the Credit CARD Act includes provisions that protect young credit card users and restrict gift card fees. Moreover, because Congress has more latitude when it addresses issues through legislation than agencies have when they promulgate rules[1], the Credit CARD Act strengthens some of the protections provided by the UDAP rules. For instance, while the agencies limited up-front fees to an amount no greater than half of the credit provided, Congress limited such fees to no more than 25 percent of the credit offered.

<u>Loss Mitigation Strategies to Prevent Mortgage Foreclosures when Appropriate</u>
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. Since September 12, 2008, the OTS and the Office of the Comptroller of the Currency (OCC) have jointly issued the Mortgage Metrics Report on a quarterly basis. It covers 34 million loans, worth $6 trillion—about 64 percent of all mortgages in the country. 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.

Since we began public reporting on loan modification activities at the beginning of 2008, servicers have implemented more than 612,000 mortgage modifications. Servicers implemented 185,156 modifications in the first quarter of 2009, a 55 percent increase

[1] To issue the UDAP rules, the agencies were required to demonstrate that the relevant practices met well established standards for "unfairness" under the Federal Trade Commission Act. Among other things, these standards require the agencies to consider whether the harm caused by a practice outweighs any benefits to consumers or the market.

over the fourth quarter of 2008. Over 97,000 first quarter modifications (54 percent of the total) decreased the borrower's monthly principal and interest payment. These payment reducing modifications increased more than 7 percent from the prior quarter. 70 percent of first quarter modifications involved some combination of two or more specific actions, with most including a reduction in the interest rate and extension of maturity. Of the 185,156 modifications made in the first quarter, 70 percent included a capitalization of past due interest, fees and tax/insurance advances; 63 percent reduced interest rates; 25 percent extended the length of the loan; and 13 percent froze the interest rate rather than allow it to reset higher. The percentage of modifications that reduced monthly payments by 20 percent or more increased by almost 20 percent during this quarter.

Earlier this year, Congress adopted the Helping Families Save Their Homes Act of 2009. Section 104 of this Act requires the OTS and OCC to submit the Mortgage Metrics Report to Congress on a quarterly basis and specifically requires the following information: (1) the total number of mortgage modifications resulting in the modification of terms or combinations of terms, such as interest rate reductions, and reductions or deferrals of principal; (2) the total number of mortgage modifications resulting in changes to total monthly principal and interest payments; and (3) the total number of loans that were modified and then went into default, where the loan modification resulted in monthly payments that increased or decreased. Our first submission to Congress responded to each of these specific requests, and we will continue to provide copies of this increasingly useful information to assist in resolving the problems facing our economy.

OTS has also provided tools to consumers who are facing foreclosure and working to save their homes. In the Spring of 2009, OTS published a brochure entitled *Foreclosure Rescue Scams – How to Avoid Becoming a Victim.* The OTS developed this brochure after hearing from consumers who had been victimized by non-bank companies that promised to solve their mortgage concerns and save their homes from foreclosure. They paid significant sums of money and received virtually nothing in return.

In the brochure, OTS informs consumers that they can file a complaint with a bank's regulator to investigate their concerns at no charge. We also inform consumers about tactics fraudulent companies frequently use in foreclosure rescue scams. Institutions may obtain the brochure through the OTS website to provide to consumers who want to learn more about how to guard against such scams. We have also distributed the brochure at public events across the country such as annual conventions for the National Council of La Raza, National Council of State Housing Agencies, and the American Bankers Association Annual Compliance Conference.

Disaster and Emergency Preparedness

OTS is actively involved in initiatives to address emergency and disaster preparedness. 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.

International Participation

The OTS continues to be involved in the development of policies and operational standards in the international arena. The agency continues to participate in meetings of the Basel Committee on Bank Supervision (BCBS), its principal subcommittees, the Policy Development Group, the Standards Implementation Group and the Accounting Task Force and their supporting working groups. Through its participation on the BCBS, the OTS continues to work with supervisors on a global basis to strengthen the regulation, supervision and risk management of the banking sector. The OTS also actively participates in the meetings and decisions of the Association of Supervisors of Banks of the Americas. OTS shares its supervisory experiences with these organizations to assist in the development of uniform global safe and sound banking principles.

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 Features 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.

Succession Planning and Management of OTS Resources

Approximately, thirty-two percent of OTS' current staff will be eligible for voluntary retirement 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 88 percent. OTS has developed a three-year accreditation program for all new Safety and Soundness and Compliance

Examination staff and has begun to shift its training and education needs to seasoned staff through a back-to-basics skill learning programs. To support the examination function, OTS plans to recruit up to 40 new examiners during fiscal year 2010.

To gain expertise and achieve accreditation, 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 2009, 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 and Real Estate Appraisal Review and Management Workshop. Compliance related courses included: Introduction to Compliance Examination Schools I and II, Bank Secrecy Act/Anti-Money Laundering School, Fair Lending School, Intermediate Compliance Course and Management Workshop. OTS also offers courses and seminars in advanced examiner topics, management and leadership topics, ethics and information security. OTS' blend of regulatory and non-regulatory training and development keep OTS' employee competencies current and relevant to industry needs. During FY 2009, 36 examiners were accredited, increasing the accredited examiner staff to 450.

OTS receives no appropriated funds from Congress; its revenue is derived principally from assessments on savings associations and savings and loan holding companies. 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 and FY 2011 shortfalls. 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.

1C – Industry Outlook

The United States economy remains distressed and the thrifts and banks engaged in home mortgage financing continue to feel the impact from the 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.

The industry posted break-even results for the second quarter of 2009—a profit of $4 million, or 0.00 percent of average assets (ROA). These results were an improvement from the first quarter 2009 loss of $1.62 billion, or a negative 0.53 percent of average assets.

As of June 30 2009, OTS—regulated thrifts accrued an estimated $500 million expense for the special assessment levied by the FDIC. This expense reduced after-tax net income by an estimated $325 million, second quarter ROA by approximately 12 basis points, and year-to-date ROA by 6 basis points. A restatement of first quarter 2009 results by one large thrift increased losses by $1.6 billion and lowered first quarter ROA by 51 basis points.

The earnings improvement was primarily due to higher net interest margins, lower provisions for loan losses, higher fee income, and lower other-than-temporary impairment charges in the second quarter. Partially offsetting these improvements in earnings were lower gains on the sale of assets and higher noninterest expense.

As an annualized percent of average assets, provisions measured 1.71 percent, a decline from 1.91 percent from the previous quarter and 3.70 percent one year ago.

Despite the decline, provisions for losses remain at elevated levels. As of June 30, 2009 provisions were the sixth highest on record—higher than all other quarters except for the five preceding quarters. Loss provisioning is expected to continue at elevated levels and to dampen industry earnings until inventories of for-sale homes appreciably decline, home prices firm, and the employment picture brightens.

Although the substantial additions to loan loss reserves dampened earnings, they bolstered the industry's reserve levels to at, or near, record levels.

Capital measures for the industry continue to be strong, stable, and well in excess of minimum requirements. Equity capital at the end of the June was 10.37 percent of assets, up from 8.65 percent one year ago. At the end of the June, over 96 percent of the industry exceeded well-capitalized standards and 15 thrifts were less than adequately capitalized.

Industry assets decreased by 27 percent over the year to $1.10 trillion from $1.51 trillion reflecting the loss of several large thrift failures over the year. Thrifts remain focused on residential mortgage lending, with 39.9 percent of assets invested in 1-4 family mortgage loans at the end of June, down from 49.5 percent one year ago. Of these 1-4 family mortgage loans, 4.9 percent are home equity lines of credit, down from 7.9 percent one year ago. Holdings of consumer loans increased to 6.5 percent of assets from 5.8 percent a year ago. Multifamily mortgages decreased over the year from 4.3 percent of assets to 3.2 percent by June 30, 2009. Commercial loans increased to 5.5 percent of assets from 3.9 percent one year ago.

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

Office of Thrift Supervision	FY 2009 Obligated	FY 2010 Estimated	FY 2011 Estimated
FTE	**1,051**	**1,065**	**1,082**
Object Classification:			
11.1 - Full-time permanent	119,806	120,875	117,853
11.3 - Other than full-time permanent	1,059	6,907	6,734
11.5 - Other personnel compensation	4	0	0
11.8 - Special personal services payments	6,963	1,506	1,468
12 - Personnel benefits	51,268	61,366	59,832
13 - Benefits for former personnel	455	201	196
21 - Travel and transportation of persons	17,804	19,502	19,014
22 - Transportation of things	324	295	288
23.2 - Rental payments to others	4,110	4,651	4,535
23.3 - Comm, utilities, and misc charges	4,666	5,653	5,512
24 - Printing and reproduction	146	222	216
25.1 - Advisory and assistance services	2,375	2,787	2,717
25.2 - Other services	5,495	5,335	5,202
25.3 - Other purchases of goods and services from Govt. accounts	5,098	5,986	5,836
25.4 - Operation and maintenance of facilities	5,009	6,941	6,768
25.7 - Operation and maintenance of equip	193	716	698
25.8 - Subsistence and support of persons	10	15	15
26 - Supplies and materials	3,359	2,819	2,749
31 - Equipment	4,234	4,173	4,069
32 - Land and structures	1,193	1,195	1,165
Total Budget Authority	**$233,571**	**$251,145**	**$244,867**
Budget Activities:			
Supervision of the Thrift Industry	233,571	251,145	244,867
Total Budget Authority	**$233,571**	**$251,145**	**$244,867**

2.3 – Resource Detail Table

Description	FY 2009 Actual	FY 2010 Estimated	FY 2011 Estimated
(Dollars in Thousands)			
Summary of Revenue and Expenses:			
Revenue:			
Supervision			
Assessments	$240,112	$212,871	$217,128
Rental Income	5,661	5,400	5,508
Interest	5,516	4,295	4,381
Fees & Other	4,691	3,452	3,521
Total Revenue	$255,980	$226,018	$230,538
Expenses:			
Supervision			
Compensation & Benefits	$179,155	$190,855	$186,084
Travel & Transportation	18,128	19,797	19,302
Facilities	8,776	11,499	11,211
Other Services & Supplies	27,512	28,994	28,270
Total Expenses	$233,571	$251,145	$244,867
Net Results	$22,415	($25,127)	($14,329)

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

3.1 – Budget by Strategic Outcome

Dollars in Thousands

Treasury Strategic Outcome	FY 2010 Estimated	FY 2011 Estimated	Percent Change
Economic competitiveness	25,114	24,488	**-2.49%**
Fin. & econ.crises	226,031	220,379	**-2.50%**
Total	**$251,145**	**$244,867**	**-2.50%**

3A – Supervision of the Thrift Industry *($251,145,000 from reimbursable programs):* On December 9, 1996, the 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.

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.

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.

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.

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' 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.

3.2.1 – Supervision of the Thrift Industry Budget and Performance Plan

Supervision of the Thrift Industry Budget Activity Resource Level	FY 2007 Obligated	FY 2008 Obligated	FY 2009 Estimated	FY 2010 Estimated	FY 2011 Estimated
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$218,129	$245,699	$233,571	$251,145	$244,867
Total Resources	**$218,129**	**$245,699**	**$233,571**	**$251,145**	**$244,867**
Budget Activity Total	**$218,129**	**$245,699**	**$225,125**	**$251,145**	**$244,867**

Budget Activity	Performance Measure	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2009 Actual	FY 2010 Target	FY 2011 Target
OTS: Supervision	Percent of safety and soundness exams started as scheduled (%)	95	94	90	94	90	90
OTS: Supervision	Percent of thrifts that are well capitalized (%)	99	98.4	95	97	95	95
OTS: Supervision	Percent of thrifts with a compliance examination rating of 1 or 2 (%)	97	95.8	90	95	90	90
OTS: Supervision	Percent of thrifts with composite CAMELS ratings of 1 or 2 (%)	93	90	90	84	80	80
OTS: Supervision	Total OTS costs relative to every $100,000 in savings association assets regulated ($)	13.46	13.9	23.04	19.88	22.00	15.07

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, (3) Percent of thrifts with COMPLIANCE exam ratings of “1” or “2.” The targets for these measures should probably remain the same for FY2010.

The fourth goal, Percent of thrifts with COMPOSITE ratings of “1” or “2” will be short approximately 6% of goal for FY2009 – 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 FY2010, it will continue to impact our institution's performance, therefore, we reduced our target to 80%.

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.

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 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 with composite CAMELS ratings of 1 or 2.
On December 9, 1996, the 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.

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' 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.

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

Human capital represents OTS' 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-two percent of OTS' current staff will be eligible for voluntary retirement 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' compensation program continues to enable OTS to attract, retain, and reward staff comparable to the other federal banking agencies. To support a solid business case, OTS will be recruiting up to 40 new examiners in the bank operations area during the 2010 fiscal year.

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.

The 2008 Federal Human Capital Survey ranked OTS 39th out of more than 200 comparable government agency subcomponents for best places to work in the federal government. That rank notably improves our 192nd place finish in 2006. OTS has made numerous improvements in an attempt to enhance its benefits programs, increase employee satisfaction and promote progression within the agency. The survey scores reflect OTS's commitment to cultivating an employee-focused and performance-based culture where employees have the opportunity to develop their skills and knowledge continuously.

4.1 – Summary of IT Resources Table

Dollars in Thousands

Information Technology Investments							
Major IT Investments / Funding Source	Budget Activity	FY 2008 & Earlier Enacted 1/	FY 2009 Enacted	FY 2010 President's Budget	% Change from FY09 to FY10	FY 2011 Requested	% Change from FY10 to FY11
Major IT Investments		$ -	$ -	$ -	0.0	0.0	0.0
Non-Major IT Investments							
Administrative - Mixed	Supervision	$ 0.923	$ 1.807	$ 1.313	-27.3%	$ 1.346	2.5%
Examinations	Supervision	$ 1.477	$ 1.807	$ 1.688	-6.6%	$ 1.730	2.5%
Thrift Financial Data	Supervision	$ 4.834	$ 3.463	$ 3.391	-2.1%	$ 3.476	2.5%
TFR Validation	Supervision	$ 1.477	$ 1.807	$ 1.501	-16.9%	$ 1.538	2.5%
Industry Structure and Tracking	Supervision	$ 1.293	$ 1.581	$ 1.313	-17.0%	$ 1.346	2.5%
CIO Planning	Supervision	$ 1.227	$ 1.739	$ 1.647	-5.3%	$ 1.688	2.5%
Total Non-Major IT Investments		$ 11.231	$ 12.204	$ 10.853	-11.1%	$ 11.124	2.5%
Infrastructure Investments							
Treasury Consolidated Data Center & Services		$ 13.292	$ 10.349	$ 6.856	-33.8%	$ 7.028	2.5%
Treasury Consolidated Telecommunications		$ 1.948	$ 4.029	$ 4.055	0.6%	$ 4.156	2.5%
Treasury Consolidated End User Services		$ 2.789	$ 3.813	$ 2.303	-39.6%	$ 2.361	2.5%
Treasury Consolidated Security		$ 1.010	$ 1.242	$ -	-100.0%	$ -	0.0%
Total Infrastructure Investments		$ 19.039	$ 19.433	$ 13.214	-32.0%	$ 13.544	2.5%
Enterprise Architecture		$ 0.185	$ 0.244	$ 0.188	-23.0%	$ 0.193	2.5%
Total IT Investments		$ 30.455	$ 31.881	$ 24.255	-23.9%	$ 24.861	2.5%

4B – Information Technology Strategy

The OTS Information Technology Investment Review Board (IRB) provides overall direction and vision for how OTS' information technology should contribute to OTS' goals and objectives. It serves as the forum for senior OTS executives to make decisions regarding IT expenditures and investments. There was a decrease of 7 FTE's from FY2009 to FY2010 spread among the various investments. In FY2009 funds were budgeted for Network and VTC upgrades. These projects were largely completed in FY2009 and will be under maintenance in FY2010. Security personnel and other expenses have been reallocated to the infrastructure services they support (i.e., Data Center, Telecommunications, and End User Services).

OTS' 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' Chief Information Officer serves as the Executive Director of the IRB; OTS' 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.

Upcoming OTS IT projects in FY 2010.

<u>Infrastructure Upgrades</u> – OTS performed major information technology infrastructure upgrades to include:

- Upgrading of network switches, circuits and routers,
- Implementing a new enterprise data storage solution,
- Modernizing the email infrastructure, and
- Deploying virtualization software.

In order to ensure optimal management and control of the upgraded infrastructure, OTS implemented new change and configuration management processes.

<u>Developing a new Business Resumption Program</u> – OTS will implement 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.

OTS has no major IT investments planned for FY 2010.

4.2 – Program Evaluation

Program Name: Thrift Supervision

Assessment and Improvement Actions:

- 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.

- Based on feedback received over the past few years, the vast majority of the industry prefers the efficiency and effectiveness of joint examinations. OTS eliminated much of the redundancy of two separate exams. OTS will fulfill its statutory examination responsibilities with fewer FTEs as a result of this change.

- During the 2007 strategic planning process, systemic risks were examined and addressed in the Plan.

- Going forward, OTS will continue to work with OCC to ensure that strategic goals are aligned. OTS will also continue to share its strategic and performance plans with other banking regulatory agencies and meet with them to discuss strategic and performance planning.

- OTS will continue to perform joint examinations while performing ongoing examinations of systemic risk and addressing any issues identified.