Overview

Mission Statement

To ensure a safe and sound system of national banks and Federal savings associations for all Americans.

Program Summary by Budget Activity

Dollars in Thousands

	FY 2010 Actual	FY 2011 Estimated 1/	FY 2012 Estimated 2/	FY 2010 to FY 2012 $ Change	FY 2010 to FY 2012 % Change
Supervise	$618,254	$680,090	$900,836	$282,582	45.7%
Regulate	$97,735	$107,511	$111,936	$14,201	14.5%
Charter	$24,434	$26,878	$27,984	$3,550	14.5%
Total Resources	**$740,423**	**$814,479**	**$1,040,756**	**$300,333**	**40.6%**
Total FTE	**3,101**	**3,140**	**3,976**	**875**	**28.2%**

1) It is anticipated that for the majority of FY 2011, the OCC will not be regulating the Federal savings associations; accordingly, the FY 2011 estimates only reflect the cost of regulating the National Banking System. Figures are subject to revision once the personnel realignment provisions of the Dodd-Frank Act are implemented.

(2) FY 2012 estimates include the cost of regulating the National Banking System and Federal savings associations. Figures are subject to revision once the personnel realignment provisions of the Dodd-Frank Act are implemented.

FY 2012 Priorities

The Office of the Comptroller of the Currency's (OCC) priorities for fiscal years (FYs) 2011 and 2012 are directly tied to the goal of repairing and reforming the financial system. The priorities and activities discussed below refer to national banks for FY 2011 and to both national banks and Federal savings associations for FY 2012. Under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) the transition period to transfer functions of the Office of Thrift Supervision (OTS) to the OCC approximately coincides with FY 2011. Priorities and activities to achieve these goals include the following:

- Regulate and supervise 1,487 national bank charters and 51 federal branches of foreign banks with total assets of approximately $8.6 trillion, as of September 30, 2010. As a result of the Dodd-Frank Act, in FY 2012 the OCC anticipates supervising approximately 700 Federal savings associations with assets currently totaling approximately $0.9 trillion;
- Conduct examinations based on the risk profile of individual national banks and Federal savings associations to ensure they are safe and sound, sufficiently capitalized, and comply with consumer protection laws and regulations[1];

[1] Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Bureau of Consumer Financial Protection is given the authority to supervise and examine insured depository institutions of over $10 billion in asset size for compliance with enumerated federal consumer financial laws. The OCC will continue to conduct examinations to assess compliance of consumer protection issues for national banks and Federal savings associations with $10 billion or less in assets, and to examine all national banks for compliance with the Bank Secrecy Act, flood insurance regulations, and the Community Reinvestment Act.

- Assess the adequacy of national banks' and Federal savings associations' credit, liquidity, internal controls, compliance, and corporate governance processes and require corrective action when deficiencies or undue risk concentrations are found;
- Continue to monitor and assess the effectiveness of national bank mortgage servicers' loan modification and foreclosure actions, including needed actions to improve the corporate governance of their processes;
- Resolve problem national bank and Federal savings association situations effectively by identifying problems at the earliest possible stage, clearly communicating concerns and expectations to bank management through appropriate enforcement actions, and ensuring timely follow-up on needed corrective actions;
- Strengthen the credit culture across the national banking and Federal savings association system to ensure prudent underwriting standards are maintained;
- Develop and implement policies to ensure that national banks and Federal savings associations establish and maintain incentive compensation policies that are consistent with the safety and soundness of the bank and do not encourage imprudent risk-taking;
- Work with other domestic and international supervisors to implement stronger capital and liquidity requirements and more robust risk management standards for large financial institutions;
- Enhance our ability to anticipate, identify, and respond to build-ups in risk and emerging issues through improved supervisory analytical tools, stress testing, and market intelligence capabilities;
- Maintain a highly skilled and experienced workforce by continuing efforts to identify and develop the next generation of bank supervision leadership, strengthen the breadth and depth of examiner specialty skills, and recruit and retain entry-level examiners;
- Combat fraud and money laundering, and protect the integrity of the financial system through national banks' compliance with the Bank Secrecy Act/Anti-money laundering (BSA/AML), and the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act laws and regulations;
- Work with the Department of Treasury and other federal financial regulators to implement the Dodd-Frank Act, which includes the transfer from OCC of certain supervisory responsibilities and personnel associated with consumer compliance activities to the Consumer Financial Protection Bureau (CFPB), and the integration of the OTS functions relating to Federal savings associations into the OCC; and
- Continue to support a competitive national banking and Federal savings association system through entry of new charters, other bank and thrift structure transactions, and expansion of bank and thrift services and products in a safe and sound manner.

Table of Contents

Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

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. With the enactment of the Dodd-Frank Act in July of 2010, the OCC will also be responsible for the supervision of Federal savings associations and rulemaking authority for all savings associations.

The OCC supervises 1,487 national bank charters and 51 federal branches of foreign banks in the United States. Total assets under the OCC supervision are approximately $8.6 trillion or approximately 70 percent of total United States commercial banking assets. As a result of the Dodd-Frank Act, in FY 2012 the OCC anticipates supervising approximately 700 Federal savings associations with assets currently totaling approximately $0.9 trillion. The average size and complexity of the institutions in the national banking system continue to grow. This, combined with OCC's supervision of Federal savings associations and responsibility for the Home Owners' Loan Act creates increasing and diverse challenges for the OCC.

As the regulator of national banks, the OCC has established four strategic goals outlined in its strategic plan that help support a strong economy for the American public: 1) assuring the safety and soundness of the institutions subject to its jurisdiction; 2) fair access to financial services and fair treatment of bank customers; 3) a flexible legal and regulatory framework that enables the institutions subject to its jurisdiction 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.

The OCC's priorities focus on strengthening the resiliency of the institutions subject to its jurisdiction through our supervisory and regulatory programs and activities. Through on-site examinations, OCC will work to ensure that national banks and Federal savings associations appropriately identify, account for, and follow prudent strategies for problem assets; instill a strong corporate governance culture that fosters sound loan underwriting standards, properly aligned incentive compensation structures, and strong internal controls, risk management, and compliance functions. Other supervisory priorities will be identifying and resolving potential problem banks at the earliest possible stage; encouraging national banks and Federal savings associations to meet the needs of credit worthy borrowers, including appropriate and effective residential mortgage modification programs, and ensuring that they comply with the Community Reinvestment Act (CRA) and the BSA/AML and USA PATRIOT Act requirements; and further enhancing OCC's supervisory analytical tools.

A major focus of the OCC's supervisory, regulatory, and administrative programs in FYs 2011-2012 will be implementing applicable provisions of the Dodd-Frank Act. The OCC will work closely with the Treasury and other federal regulatory agencies on these initiatives, including developing and issuing implementing rulemakings on a broad range of topics, including regulatory capital; permissible proprietary trading, hedge fund, and private equity fund investments (the so-called Volcker rule); derivative margin requirements; executive compensation; risk retention standards for securitizations; and real estate appraisals. Similarly, the OCC is working to provide smooth transitions for the transfer and integration of various regulatory and supervisory functions across and among the agencies. These efforts will include the transfer of certain supervisory responsibilities and personnel associated with consumer compliance activities to the CFPB and the integration of the OTS functions and personnel into the OCC.

The FY 2012 budget is based on initial estimates prepared by the OCC and the OTS. These estimates are subject to revision based on the financial impact of certain events which include, but are not limited to, the number of OTS personnel that transfer to either the OCC or the Federal Deposit Insurance Corporation (FDIC), the number of OCC and OTS staff that transfer to the newly established CFPB, and the final distribution of assets between the banking agencies upon the dissolution of the OTS. The exhibits have been footnoted accordingly to reflect these uncertainties.

1B – Program History and Future Outlook

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

Operations are funded primarily (approximately 97 percent) from semiannual assessments levied on national banks, and for FY 2012, national banks and Federal savings associations. Revenue from investments in Treasury securities and other income comprise the remaining three percent of the OCC's funding. The OCC does not receive congressional appropriations to fund any portion of its operations.

The OCC and the banking industry continue to operate in a highly challenging and volatile environment. While economic conditions are expected to continue to improve in FY 2011, global markets and events may continue to threaten economic recovery and stability. Many national banks and Federal savings associations will continue to have substantial volumes of troubled loans and borrowers that will consume resources, strain earnings, and, in some cases, may require continued growth in loss reserves. National banks and Federal savings associations will face heightened compliance, reputation, and strategic risks as a result of significant changes in the statutory, regulatory, and accounting requirements for various bank and thrift products, services, and transaction structures. Banks and Federal savings associations will need to successfully integrate these changes into their operations and it is likely that some of these changes will foster fundamental shifts in some banks' and thrifts' business models and strategic plans. Increasingly, the OCC will need to coordinate many of its supervisory regulations, policies and actions with other supervisors, both domestically and internationally.

To address these challenges, the OCC will need to conduct ongoing assessments of emerging risks and the underlying condition of national banks and Federal savings associations, and to prioritize and allocate resources to the areas and institutions of highest risks.

The following are highlights of the OCC's FY 2010 accomplishments and specific FYs 2011-2012 challenges.

<u>Supervisory Activities</u>

As the supervisor of national banks, the OCC has various ways to influence the national banking system:

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

Upon the transfer of OTS functions, the OCC will incorporate similar supervisory activities to influence Federal savings associations.

Federal banking agencies regularly share supervisory information and undertake coordinated enforcement actions. As an example, when the OCC issues a remedial enforcement action against a national bank, the Board of Governors of the Federal Reserve System (FRB) will often take a complementary action with respect to the bank's holding company. Pursuant to an interagency sharing agreement, the federal banking agencies regularly exchange documents and information concerning fraudulent activities, including suspicious activity reports that involve suspected illegal activities at multiple financial institutions, and notify each other of enforcement actions against depository institutions and individuals.

The OCC also coordinates extensively with other regulatory agencies and with law enforcement authorities. It has entered into similar information sharing agreements with most state banking agencies, and all 50 state insurance departments, and regularly shares information with the Securities and Exchange Commission (SEC). The agency makes enforcement referrals to all of these regulators, as well as to state licensing boards and state professional ethics and responsibility boards, with respect to misconduct by attorneys, accountants, real estate agents, appraisers, and other professionals. The agency also makes enforcement referrals and cooperates in investigations conducted by several federal agencies, including, the Financial Crime Enforcement Network (FinCEN), the Department of Labor, the Internal Revenue Service, the Department of Housing and Urban Development (HUD), the Federal Election Commission, and the Federal Trade Commission (FTC). Suspected criminal violations, including evidence of fraud, are referred to the Department of Justice (DOJ). The OCC assists the DOJ, the Federal Bureau of Investigation, and the United States Secret Service in their investigations and prosecutions of fraud, as appropriate, by providing the OCC examiners to serve as special agents to the grand jury and as expert banking witnesses for the prosecution at trial. The OCC is a member of the National Interagency Bank Fraud Working Group and the President's Corporate Fraud Task Force.

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

The OCC monitors and alerts the industry to emerging risks and practices that could adversely affect a bank's safety and soundness or compliance with banking laws and regulations through policy programs. Over the last several years, the OCC issued a series of supervisory guidelines to address weaknesses in bank underwriting standards and credit practices. These guidelines addressed credit card account management; loss allowance practices; sound risk management practices for concentration loans in Commercial Real Estate (CRE) lending; credit risk management for home equity lending; and nontraditional and subprime mortgage products. More recently, the OCC has issued guidance on the need for sound interest rate risk and liquidity risk management practices and the risks associated with funding and credit concentrations arising from correspondent relationships.

In FY 2010, the OCC conducted a survey of national banks to assess the effectiveness of supervisory policies. The OCC requested feedback from bankers on how effectively the agency conveys and might improve: the reasons behind the issuance of new supervisory guidance; the intended audience for new supervisory guidance (all banks, only banks with a specific product line or service, only banks of a certain asset size, etc.); specific actions OCC expects bank management to take in response to new supervisory guidance; the risks to the bank if supervisory guidance is not implemented, such as legal, regulatory, reputation, or safety and soundness risk; and the expected timing of bank management's implementation of supervisory guidance. Over 75 percent of those who responded said they were receiving the right amount of information for all subject areas. Bankers were also generally pleased with the overall quality of OCC bulletins and handbooks (clarity, conciseness, usefulness, and completeness).

The OCC supervisory activities in FY 2010 centered on monitoring and responding to adverse conditions in the credit and financial markets, and national banks' loan portfolios. A primary focus of on-site supervisory activities was the quality of national banks' credit risk management practices, as evidenced by effective credit risk rating systems and problem loan identification, adequate loan loss reserves in light of deteriorating credit quality, and effective loan work-out strategies. The OCC continues to encourage bankers to work with creditworthy borrowers who may be facing financial difficulties. Other areas of emphasis were sound liquidity risk management, with diversified funding sources and realistic contingency funding plans, and strengthening capital buffers to weather further earnings pressures and asset quality deterioration. While assessing credit quality, adequacy of loan loss reserves, liquidity, capital, and risk management practices have been and continue to be the OCC's primary focus. The OCC is cognizant of the continuing need to address supervisory issues in the areas of fair lending, consumer protection, BSA/AML, and information security.

In the wake of the reported improprieties in the foreclosure processes used by several large mortgage servicers in the fall of 2010, the OCC initiated a horizontal, on-site review at the eight largest national bank mortgage servicers. A key objective of these examinations was to independently test and verify the adequacy and effectiveness of governance over the foreclosure process. The FRB and FDIC are participating in these examinations. For the most part, these examinations are complete. During the second quarter of FY 2011, the agency anticipates completing the analysis of the examinations conducted to determine what additional supervisory or regulatory action may be needed.

Legislative changes will significantly affect the scope of the OCC's supervisory activities, by, for example, transferring the functions formerly performed by the OTS for Federal savings associations into the OCC, and transferring designated consumer compliance functions to the CFPB. Executing these transfers will be a major initiative for the agency that will likely require substantial resources. The OCC is committed to working closely with its regulatory partners in ensuring a smooth transition, while continuing to maintain a focus on ensuring the safety and soundness of national banks and beginning to focus on ensuring the safety and soundness of Federal savings associations.

Monitoring Credit Quality

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

In addition to individual bank examinations, the OCC conducts a variety of other activities aimed at identifying and responding to systemic trends and emerging risks that could adversely affect asset quality or the availability of credit at national banks and in the banking system. Fiscal year 2010 activities included:

- Annual Survey of Credit Underwriting Practices - This annual survey, conducted by the OCC examiners and Credit Risk staff, identifies trends in lending standards and credit risk for the most common types of commercial and retail credit products offered by national banks. It provides an aggregate snapshot of how various factors, such as competition, are affecting how banks price and underwrite loans and whether the OCC believes the inherent credit risk in bank portfolios are increasing or decreasing. The 2010 survey included 51 of the largest national banks and covered the 12-month period ending March 31, 2010. The aggregate total of loans was $4 trillion, which represented over 93 percent of all outstanding loans in the national banking system. The survey results, published in August 2010, indicated that underwriting standards continued to tighten during the survey period (March 2009 – March 2010) for both commercial and retail loans, but at a lower rate than the 2009 survey. In certain products, OCC examiners saw some evidence of banks once again loosening standards in response to competition and a modest improvement in credit market liquidity. However, examiners reported that the overall level of credit risk increased in retail and commercial portfolios during the survey period, and they expect the level of risk to continue to increase over the next 12 months.

- Shared National Credit Review - The annual Shared National Credit (SNC) review is a joint program conducted by the OCC, the FRB, the FDIC, and the OTS. The SNC review addresses large syndicated loans held by multiple financial institutions. The 2010 review covered approximately 8,300 credit facilities with commitments totaling $2.5 trillion. A

SNC Press Release with results of 2010 SNC review was issued September 28, 2010. Credit quality of large loan commitments remained weak in 2010, but improved from 2009, according to the results of the 2010 SNC review. The OCC continued work on an interagency project to modernize the collection and analysis of SNC data and to improve the program's efficiency and effectiveness. The interagency SNC central information data repository was put into production in December 2009. The first development phase of the examination application will be implemented for use during the 2011 SNC examination. This application will be enhanced with a final release for the 2012 SNC examination, in addition to completion of analytical tools and reports. This development work is scheduled to be completed in calendar year 2011 and 2012.

- Risk Concentrations - The market turmoil and subsequent economic downturn highlighted the risks posed by undue asset or liability concentrations in bank portfolios. Community banks can be especially prone to such concentrations as their lending portfolios tend to be highly concentrated in their local markets. As noted above, the OCC and other federal banking agencies warned financial institutions of the risks that were accumulating in many financial institutions' CRE loan portfolios. In addition, the OCC developed several diagnostic tools that bankers can use to help assess the risk in their CRE portfolios.

  The OCC conducted asset quality reviews of all the OCC community and mid-size banks that have significant CRE concentrations to assess the adequacy of credit underwriting, problem loan identification, and loan loss reserves for these portfolios. These efforts included a stress test of CRE portfolios at a number of midsize regional banks that have significant CRE concentrations. Monitoring national banks [and Federal savings associations] with significant CRE concentrations will be a primary focus of the OCC's supervisory strategies in FYs 2011 and 2012.

- Enhanced Credit Data Analytics - To improve the OCC's ability to monitor credit quality trends at the largest national banks and to identify potential trends that could pose systemic risks to the industry as a whole, the OCC has worked with several data aggregators to collect and validate data on home equity, credit card, CRE, and large corporate syndicated credits at the largest national banks. These efforts build off of the highly successful mortgage metrics project that the OCC initiated in FY 2008. All loan-level data collections are in production. During FYs 2011-2012, work will continue to integrate and further develop analytical and reporting tools applicable to both national banks and Federal savings associations.

Promoting Credit Availability to Creditworthy Borrowers
Throughout the economic turmoil, the OCC encouraged national banks to work constructively with borrowers who may be facing financial difficulty and to extend credit in a responsible and prudent manner. This is especially important to the restoration of a healthy financial sector that can support the credit needs vital to the nation's economy.

- Small Business Lending - To help promote increased small business lending, the OCC and other federal banking agencies partnered with the Small Business Administration (SBA) and held seminars for bankers on small business lending issues and the SBA's loan programs. In February 2010, the OCC and other banking agencies issued an interagency statement on meeting the credit needs of creditworthy small business borrowers. The statement reiterates the agencies' policy that financial institutions that engage in prudent small business lending after performing a comprehensive review of a borrower's financial condition will not be subject to criticism for loans made on that basis.

The OCC is also working with Treasury and the other federal banking agencies to implement the provisions of the Small Business Lending Fund (SBLF) pursuant to the *Small Business Jobs Act of 2010.* As mandated by the statute, the OCC and other banking agencies have issued guidance regarding prudent underwriting standards for small business loans that participating institutions make with SBLF funds.

To improve the agencies' ability to monitor the credit available to households and businesses, the OCC and other federal banking agencies made several changes to the information that banks and thrifts must report in their Consolidated Reports of Condition and Income (Call Reports) and Thrift Financial Reports (TFR). Effective with their March 2010 filings, institutions began reporting small business loan data on a quarterly, rather than annual basis. Institutions with $300 million or more in total assets or unused credit card commitments also are providing separately the amount of unused credit card lines for consumers and for other credit card borrowers. Additional breakdowns of other unused loan commitments also are being collected. This information will allow the agencies to better monitor credit flows throughout a business cycle.

- Residential Mortgage Modifications and CRE Loan Work Outs - The OCC also worked closely with Treasury on its various mortgage modification programs and efforts to help homeowners facing financial difficulty. The OCC provided technical assistance on program design and implementation and encouraged national banks to participate in those programs. In an effort to make key aspects of mortgage loan data more transparent and publicly available, the OCC and OTS in September 2008 began to publish joint quarterly reports on loan performance, delinquencies and foreclosures. The "Mortgage Metrics Report" presents data from eight national banks and one thrift with the largest mortgage portfolios (about 65 percent of all mortgages in the country) and can be used by examiners to assess emerging trends, evaluate asset quality and loan loss reserve needs, identify anomalies, and evaluate loss mitigation actions. In early 2009, Congress adopted the Helping Families Save Their Homes Act of 2009. Section 104 of this Act requires the OCC and OTS to submit the Mortgage Metrics Report to Congress on a quarterly basis and specifically requires information relating to the number of mortgage modifications made, the number of these that resulted in lower payments, and the number of modified mortgages that went into default again. The Dodd-Frank Act amended Section 104 of the Helping Families Save Their Homes Act of 2009 to require the OCC and OTS to provide Mortgage Metrics data to Congress broken down by state.

  In response to the growing number of residential mortgage modifications and CRE work-outs, in FY 2010 the OCC provided additional supervisory guidance on accounting and classification issues associated with such activities. The OCC supervisory guidance to examiners on residential mortgage modifications stressed that the OCC expects mortgage modifications to be undertaken in a manner that improves the likelihood that a borrower can repay the restructured credit under the modified terms and in accordance with a reasonable repayment schedule. In October 2009, the OCC and other banking agencies issued a joint policy statement on prudent CRE workout programs. The statement is intended to promote supervisory consistency, enhance the transparency of CRE workout transactions, and ensure that supervisory policies and actions do not inadvertently curtail the availability of credit to creditworthy borrowers. The statement includes a variety of examples to illustrate how examiners will apply the principles outlined in the guidance. The agencies hosted a seminar for the banking industry on the guidance in December 2009.

Restoring Financial Stability, Enhancing Risk Management Practices, and Strengthening Prudential Supervision

The OCC continues to actively support the administration's efforts to restore stability to the U.S. financial sector and overall economy. The OCC is also working closely with other domestic and international supervisors, including the newly formed Financial Stability Oversight Council (FSOC), the Basel Committee on Banking Supervision, the Financial Stability Board (FSB) and the Senior Supervisors' Group (SSG), to identify and coordinate actions aimed at both restoring functioning markets and strengthening risk management practices.

Key initiatives related to these efforts are:

- Enhanced Liquidity Risk Management and Liquidity Buffers - Failure to maintain adequate liquidity was a significant factor contributing to the turmoil in 2008, highlighting the importance of liquidity risk management for the safety and soundness of financial institutions. In March 2010, the OCC along with the Federal Financial Institutions Examination Council (FFIEC) member agencies and the Conference of State Banking Supervisors issued ***Interagency Guidance on Funding and Liquidity Risk Management***. This summarizes the principles of sound liquidity risk management issued in previous guidance, and brings them into conformity with the *Principles for Sound Liquidity Risk Management and Supervision*, issued by the Basel Committee on Banking Supervision in September 2008. The guidance emphasizes the central elements of liquidity risk management, including the importance of cash flow projections, diversified funding sources, stress testing, a cushion of liquid assets, and a formal, well-developed contingency funding plan for measuring, monitoring, and managing liquidity risk.

  In December 2009, the Basel Committee issued a proposed international framework for liquidity risk measurement that would, among other things, establish minimum liquidity standards for internationally active banks, a 30-day liquidity coverage ratio requirement underpinned by a longer-term structural liquidity ratio. In September 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee, announced that after an observation period beginning in 2011, the liquidity coverage ratio will be introduced in 2015. The longer-term structural liquidity ratio will become a minimum standard in 2018.

- Enhanced Capital Standards - The financial crisis highlighted areas where the current Basel II capital framework requires strengthening. The OCC, with other Basel Committee members, provided recommendations for revisions, which were finalized and approved by the Basel Committee in July 2009. The enhancements also require that banks conduct more rigorous credit analyses of externally rated securitization exposures. The Basel Committee also announced substantial revisions to the 1996 rules governing the capital required for trading activities. These changes will result in higher capital requirements to capture the credit risk of complex trading activities. The OCC and other federal banking agencies are evaluating how to move forward with the implementation of these proposals and a proposed Basel II standardized approach for U.S. banking companies. This enhances the risk sensitivity of the current Basel I capital requirements that applies to most U.S. financial institutions to address provisions of the Dodd-Frank Act that prohibit the use of credit ratings in the agencies' regulations. The agencies anticipate issuing notices of proposed rulemakings on these proposals in 2011.

In December 2009, the Basel Committee issued proposals to further enhance the level and quality of capital held by banking institutions. The proposals would strengthen capital by: 1) establishing capital buffers that can be drawn down in periods of stress; 2) strengthening the quality of bank capital; and 3) introducing a leverage ratio for countries that currently do not have a leverage-based capital ratio. The Group of Governors and Heads of Supervision announced final agreements on these proposals in September 2010. These heightened capital standards will be phased in, with full implementation to be effective on January 2019.

- Correspondent Banking Concentrations - In April 2010, the OCC and other federal banking agencies issued guidance to address risks associated with funding and credit concentrations arising from correspondent relationships. The guidance outlines the agencies' expectations for financial institutions with respect to identifying, monitoring, and managing correspondent concentration risks between financial institutions, as well as performing appropriate due diligence on credit exposures to, and funding transactions with, other financial institutions.

- Interest Rate Risk - In January 2010, the OCC, the other federal banking agencies, and the Conference of State Bank Supervisors issued a joint advisory to remind institutions of supervisory expectations regarding sound practices for managing interest rate risk. In the current environment of historically low short-term interest rates, it is important for institutions to have robust processes for measuring and, where necessary, mitigating the exposure to unexpected or substantial increases in interest rates.

- Incentive Compensation Structures - In FY 2010, the OCC participated with the FRB in a horizontal review of incentive compensation structures and practices across the largest financial institutions. Follow up work is being conducted by the agencies' examination teams and will continue in FY 2011. As announced in June 2010, the OCC along with the FRB, the FDIC, and OTS has issued guidance on incentive compensation policies to ensure that such practices take into account risk and are consistent with safe and sound practices. The guidance directs that incentive compensation arrangements at a banking organization comply with the following principles:

  - Provide employees incentives that appropriately balance risk and reward;
  - Be compatible with effective controls and risk management; and

- Be supported by strong corporate governance, including active and effective oversight by the organization's board of directors.

The OCC is also working with the other federal financial agencies to implement section 956 of the Dodd-Frank Act that requires disclosure and reporting of incentive-based compensation arrangements by covered financial institutions and prohibits incentive-based compensation arrangements that are excessive or that could expose institutions to inappropriate risks that could lead to a material financial loss.

- Addressing Off-Balance Sheet Risks - In January 2010, the OCC and other federal banking agencies amended their risk based capital rules to eliminate the exclusion of certain consolidated asset-backed commercial paper programs from risk-weighted assets and to permit the agencies to require banking organizations to treat entities that are not consolidated under accounting standards as if they were consolidated for risk-based capital purposes. This rule is in response to changes in the accounting for certain off-balance sheet structures that went into effect in January 2010. In response to public comments about continued uncertainty regarding the scope of these accounting changes and the potential impact the rule could have on credit availability, the agencies provided a transition process for the full implementation of this rule.

  As previously noted, the OCC is working with the other federal financial agencies to implement the various provisions of the Dodd-Frank Act related to proprietary trading and various off-balance sheet instruments and activities.

- Accounting and Financial Disclosure Issues - The OCC and other federal banking agencies continue to work closely with the SEC and the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) on various accounting and disclosure issues and proposals. Under Comptroller Dugan's chairmanship of the Financial Stability Board's Working Group on Provisioning, the OCC has also been actively involved with banking supervisors and accounting standard setters world-wide to ensure that banks have the ability to strengthen their loan loss reserves at an appropriate time in the credit cycle, as their potential future loan losses are increasing.

  A major issue that the OCC has been closely monitoring is the FASB's Exposure Draft on Financial Instruments. The OCC is particularly concerned about expansion of fair value to bank loan portfolios and the resulting volatility this could create on bank balance sheet positions, and their capital and funding requirements. One of the lessons learned from the crisis was the lack of reliability and relevance of fair value measurements. The OCC organized a series of outreach meetings with investors to explore the potential implications of the FASB's proposal, and worked with the other federal banking agencies to submit comments to the FASB on the proposal.

Resolving Problem Banks
The goal of the OCC's supervision is to identify and correct potential issues at an early stage, before they adversely affect the safety and soundness of the banking system or the viability of an individual bank. Despite these efforts, given current market conditions, the OCC expects to see

an increase in problem banks that will require more in-depth supervisory attention. As a bank reaches this stage, the OCC's efforts focus on developing a specific plan that takes into consideration the ability and willingness of management and the board of directors to correct deficiencies in a timely manner and return the bank to a safe and sound condition. In most instances these efforts, coupled with the commitment of bank management, result in a successful rehabilitation of the bank.

The OCC makes every effort to address and seek correction of bank problems through its examination program. However, when problems are serious and well-documented, enforcement action may be warranted to address violations of laws, rules, and regulations; unsafe or unsound banking practices and breaches of fiduciary duty; and noncompliance with the OCC directives or orders by national banks, their insiders, and other affiliated parties.

The OCC has a variety of tools to deal with the industry-wide increase in problems and troubled institutions in FY 2010, including statutory Prompt Corrective Action determinations when a bank's capital deteriorates below specified thresholds, requirements for increased capital and liquidity sources, required changes in bank management, and prior OCC approval of changes in business plans.

In addressing mismanagement during FY 2010, the OCC took such formal enforcement actions as final cease and desist orders, removal or prohibition orders, Civil Money Penalties, and formal agreements. Documents relating to the OCC enforcement actions can be found on the OCC's Web site at (*www.occ.gov*).

There will be cases, however, where the situation is of such significance that the OCC will require the sale, merger, or liquidation of the bank, if possible. Where that is not possible, the FDIC may be appointed as receiver. The OCC works closely with the FDIC in these cases to affect least cost resolution, consistent with the provisions of the Federal Deposit Insurance Corporation Improvement Act. In FY 2010, 30 national banks failed where the OCC appointed the FDIC as receiver. It is likely that there will be additional failures during FY 2011.

Bank Secrecy Act/Anti-Money Laundering (BSA/AML)
Through on-site examination activities, the OCC examiners evaluate banks' compliance with BSA/AML requirements and, where weaknesses are noted, seek corrective action. The OCC has also developed a Money Laundering Risk System (MLRS) that provides the national community bank charters with succinct BSA/AML risk assessment information. This information also enhances the OCC's effectiveness in BSA/AML supervision. In March 2010, the OCC along with the other federal banking agencies, FinCEN, SEC, and Commodity Futures Trading Commission (CFTC) issued interagency guidance on obtaining and retaining beneficial ownership information. The guidance clarifies and consolidates existing regulatory expectations for financial institutions obtaining beneficial ownership information for certain accounts and customer relationships. The OCC and other FFIEC member agencies issued the revised FFIEC BSA/AML Examination manual in April 2010 to incorporate regulatory changes and new supervisory guidance.

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

The Dodd-Frank Act requires that certain functions of the OCC relating to consumer protection and fair lending be transferred to the CFPB. The OCC is committed to work with the CFPB to ensure a smooth transition of any transfer of functions or personnel.

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

As described in more detail in the Supervision section, the OCC responded to the mortgage crisis by encouraging national banks to work with consumers, supporting private and public sector initiatives and programs that seek to assist these borrowers, and collecting and analyzing extensive mortgage lending and workout data from the largest national banks. In January 2010, the OCC updated its Fair Lending examination handbook to more effectively address disparate treatment in loan pricing, broker activity redlining, and steering borrowers to higher cost loans. These updates were coordinated with the other federal banking agencies.

Community Development
The OCC actively supports the efforts of national banks to engage in sound and successful community development activities and processes community development investment notices and proposals under title 12, Code of Federal Regulations Part 24. The OCC was a co-sponsor of the 2010 National Interagency Community Reinvestment Conference. During FY 2010, national banks made $6.2 billion in community development investments.

The OCC also conducts outreach with a variety of organizations, including advocacy groups, research organizations, community development practitioners, and community development membership organizations whose constituencies include or affect low- and moderate-income consumers, distressed communities, and small and minority-owned businesses. During FY 2010, the OCC identified and publicized strategies for stabilizing communities affected by foreclosure and resulting property vacancies, and continued its support of financial literacy programs. The agency issued publications and partnered with the SBA to promote bank involvement in economic stimulus and recovery measures.

Consumer Protection

During FY 2010, the OCC continued its work with the other federal banking agencies to improve consumer protection. These efforts included an interagency initiative to design and test a financial privacy notice that is clear and that consumers can better understand and use to exercise their preferences for information sharing. After conducting both quantitative and qualitative consumer research, the OCC and other federal agencies (including the CFTC, FTC, and SEC) finalized model privacy notice forms. In November 2009, the forms were provided to the industry through amendments to the rules that implement the financial privacy requirements of the Gramm-Leach-Bliley Act. In April 2010, the eight federal regulators released an Online Form Builder that financial institutions can download and use to develop and print customized versions of a model consumer privacy notice.

In December 2009, the OCC and other federal banking agencies issued for public comment proposed supervisory guidance on managing consumer compliance and reputation issues involved with reverse mortgages. The guidance discusses legal questions raised by reverse mortgages, stresses the need to provide adequate information to consumers about these products, to provide qualified independent counseling to consumers considering them, and to avoid potential conflicts of interest. The guidance also addresses related policies, procedures, internal controls, and third party risk management. The final guidance was issued on August 16, 2010. Effective with the December 31, 2010, Call Report and TFR filings, financial institutions will be required to provide information on the volume of reverse mortgages that they hold or have originated and sold during the year and on the volume of referrals they made to other lenders for a fee for such products.

The OCC is leading the interagency effort to implement the registration requirements of the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (S.A.F.E. Act). In July 2010, the agencies issued a joint final rule that establishes the registration requirements for mortgage loan originators employed by agency-regulated institutions as well as requirements for these institutions, including the adoption of policies and procedures to ensure compliance with the S.A.F.E Act and final rule. As required by the law, the final rule also requires these mortgage loan originators to obtain a unique identifier through the Nationwide Mortgage Licensing System and Registry (Registry) that will remain with that originator, regardless of changes in employment. When the system is fully operational, consumers will be able to use the unique identifiers to access employment and other background information of registered mortgage loan originators. Substantial progress has been made in modifying the Registry to accommodate the registration of employees of agency-regulated institutions. The Registry is expected to be capable of accepting these and federal registrations in January 2011 at the earliest. The Dodd-Frank Act will transfer the agencies' responsibilities under the S.A.F.E. Act to the CFPB on a transfer date that is no earlier than January 2011 and, subject to a six-month extension, no later than July 2011.

The OCC also worked with the other federal banking agencies to develop and issue examination procedures related to the Unlawful Internet Gambling Enforcement Act of 2006 and the Protecting Tenants at Foreclosure Act of 2009.

In addition to these interagency efforts, in FY 2010 the OCC issued guidance on consumer protection and safety and soundness issues associated with tax refund anticipation loans, and guidance to national banks on complying with provisions of the new opt-in requirements relating to overdraft protection programs and provisions of the Credit CARD Act of 2009.

Enforcement

As needed, the OCC uses its enforcement authority to address safety and soundness violations and noncompliance with laws and regulations. During FY 2010, the OCC issued 364 enforcement actions against national banks and 236 against institution-affiliated parties.

The OCC assessed a $50 million Civil Money Penalty against a national bank for violations of the Bank Secrecy Act as part of a coordinated action with the DOJ, FinCEN and other federal agencies. The bank also agreed to forfeit $110 million to the U.S. under a deferred prosecution agreement with the U.S Attorney's Office in the Southern District of Florida and the DOJ. The OCC also entered into a Formal Agreement with a national bank to reimburse consumers harmed by the bank's credit card account closing practices. Agreed-upon reimbursement totaled $775,000. In another action, a national bank was directed to make $5.1 million in restitution to over 60,000 consumers adversely affected by its relationships with a third party payment processor. The bank also received a $100,000 civil money penalty.

The OCC expects the level of enforcement actions associated with problem banks and bank failures to continue through the next fiscal year.

Regulatory Activities

As one of its four strategic goals, the OCC strives to maintain a flexible legal and regulatory framework that enables the national banking system to provide a full, competitive array of financial services. The agency devoted a significant amount of resources in FY 2010 to performing analysis of and providing technical assistance for legislative proposals to reform the U.S. financial regulatory structure.

The OCC and other financial regulatory agencies issued a final rule providing that mortgage loans modified under the U.S. Department of the Treasury's Home Affordable Mortgage Program generally will retain the risk-based capital risk weight appropriate to the loan prior to modification. Mortgages in the trial period also qualify.

The OCC's strategic objectives emphasize regulatory oversight practices that support national banks' ability to compete while maintaining safety and soundness. The OCC will continue its legal work of analysis and interpretation of national bank powers and authorities during FY 2011. This work will be carried forward to include the thrift industry when OCC assumes OTS's functions relating to Federal savings associations in accordance with the Dodd-Frank Act. The FY 2010 determinations included confirming that a national bank may purchase and hold auction rate preferred securities for its own account subject to certain representations and conditions. The OCC issued its calendar year publication, "2009 Significant Legal, Licensing, and Community Development Precedents for National Banks" as well as the cumulative companion edition of "Permissible Activities for a National Bank." The OCC will also continue to provide case-by-case analysis, consistent with the law and as appropriate, with respect to the enforcement of state law in cases involving national banks and their subsidiaries.

Charter Activities

For the first half of FY 2010, the OCC issued 1,344 corporate licensing decisions, with a 96 percent on time rate. Bank branch and relocation application volume declined somewhat compared to the same period in the prior year. In order to address potential safety and soundness problems before they arise, the OCC may impose conditions upon bank transaction approvals covering, for example, capital and liquidity arrangements and deviations from business plans. In FY 2010, the OCC responded quickly and effectively in reviewing and making decisions on applications related to resolving problem conditions. Proposed restructurings that may avoid bank failures and their associated costs can include mergers, purchases and assumptions, and temporary bridge banks.

In FY 2010, the agency continued conditional approvals of "shelf charters" to expand the pool of qualified bidders for troubled institutions. The relatively new mechanism involves the granting of preliminary approval to investors for a national bank charter. A shelf charter remains inactive until an investor group holding the charter is in a position to acquire a troubled institution. This process expands the pool of potential buyers available to purchase troubled institutions. In January of 2010, the OCC approved the first use of a shelf charter for the acquisition of a failed bank, and in July, a shelf charter was used to acquire three failed banks.

1C – Industry Outlook

Turmoil in the financial markets, the mortgage and foreclosure crises, and the long and deep recession has added to the challenges facing the banking system. Past experience suggests that growth in the banking system is likely to be slow in the immediate aftermath of the recession, but that it will increase later in the cycle. Further, the long-term trend of bank consolidation is likely to continue and will accelerate in the near term, as the credit cycle culls out weaker performers. If bank assets continue to grow at the rate of nominal Gross Domestic Product (GDP), and if GDP growth returns to its historical average over the next five years, assets could grow and the number of banks could shrink, as shown in the following table [1].

	Commercial Banks		**National Banks**		Share of Total System Assets
	Assets ($t)	Number	Assets ($t)	Number	in Banks over $10 Billion
2009	11.8	6,939	8.2	1,462	82.1%
2014 [2]	15.1	6,400	10.5	1,100	85.0%

(1) This table does not include assets currently supervised by the OTS.
(2) Estimated.

But the depth, breadth, and duration of this downturn suggests that over the next year or two, bank assets and loans could grow more slowly than before the recession. The combination of recession and financial crisis has already caused widespread deleveraging among both households and firms. Moreover, corporations are likely to be able to fund more of their operations from internal cash flow, dampening growth in business lending. Most observers expect this to continue, reducing the rate of credit growth throughout the economy. This could limit the pace of bank lending and asset growth as the economy begins to recover, as happened after the 1990-91 recession.

Large banks will continue to dominate the industry. Banks with over $10 billion in assets now account for over 80 percent of commercial bank system assets; this share has been increasing, and the trend is expected to continue. The financial crisis could increase consolidation among these large banks, thinning their ranks from the 87 that exist now. Until about six years ago, national banks consistently accounted for about 56 percent of all commercial bank assets. Since then, a series of mergers and conversions have increased the national bank share to approximately 70 percent of commercial bank assets. The OCC's projections assume that share remains steady over the next five years.

Risks to the banking system include continued problems in the credit markets, and a slow recovery from the recession.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Office of Comptroller of the Currency	FTE	Amount
FY 2010 Actual	**3,101**	**$740,423**
FY 2011 Estimated	**3,140**	**$814,479**
Changes to Base:		
Maintaining Current Levels (MCLs):	-	$4,564
Maintaining Current Levels	-	$4,564
Subtotal FY 2012 Changes to Base	-	$4,564
Total FY 2012 Base	**3,140**	**$819,043**
Program Changes:		
Program Increases:	836	$221,713
Adjustment	836	$221,713
Subtotal FY 2012 Program Changes	836	$221,713
Total FY 2012 Estimated	**3,976**	**$1,040,756**

2A – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) .... +$4,564,000 / +0 FTE

Maintaining Current Levels +$4,564,000 / +0 FTE

Funds are required for inflation adjustments in non-labor expenses such as GSA rent adjustments, postage, supplies and equipment and health benefits and the increase in Federal Employee Retirement System participation. No inflation adjustment is requested for pay in FY 2012.

Program Increases .... +$221,713,000 / +836 FTE

Adjustment +$221,713,000 / +836 FTE

Includes regulation of the National Banking System and Federal Savings Associations. This estimate is subject to revision once the personnel realignment or the Dodd-Frank Act are implemented.

2.2 – Operating Levels Table

Dollars in Thousands

Office of Comptroller of the Currency	FY 2010 Obligated	FY 2011 Estimated	FY 2012 Estimated
FTE	**3,101**	**3,140**	**3,976**
Object Classification			
11.1 - Full-time permanent	$361,693	$372,600	$519,857
11.3 - Other than full-time permanent	$9,799	$0	$0
11.5 - Other personnel compensation	$1,938	$2,102	$3,138
12 - Personnel benefits	$133,668	$147,091	$188,377
13 - Benefits for former personnel	$103	$195	$0
21 - Travel and transportation of persons	$46,821	$53,776	$67,374
22 - Transportation of things	$2,663	$1,838	$3,743
23.1 - Rental payments to GSA	$2,668	$2,743	$3,750
23.2 - Rental payments to others	$37,470	$39,903	$52,669
23.3 - Communication, utilities, and misc charges	$10,844	$9,004	$15,243
24 - Printing and reproduction	$802	$831	$1,127
25.1 - Advisory and assistance services	$26,369	$27,277	$37,065
25.2 - Other services	$15,916	$50,713	$22,372
25.3 - Other purchases of goods and services from Govt. accounts	$6,331	$10,428	$8,899
25.4 - Operation and maintenance of facilities	$4,634	$5,949	$6,514
25.7 - Operation and maintenance of equip	$52,363	$61,762	$73,603
26 - Supplies and materials	$5,173	$11,118	$7,271
31 - Equipment	$16,726	$13,903	$23,510
32 - Land and structures	$4,311	$3,016	$6,060
42 - Insurance claims and indemnities	$131	$230	$184
Total Budget Authority	**$740,423**	**$814,479**	**$1,040,756**
Budget Activities			
Supervise	$618,254	$680,090	$900,836
Regulate	$97,735	$107,511	$111,936
Charter	$24,434	$26,878	$27,984
Total Budget Authority	**$740,423**	**$814,479**	**$1,040,756**

2.3 – Resource Detail Table
Dollars in Thousands

	FY 2010 Actual		FY 2011 Estimated (1)		FY 2012 Estimated (2)		% Change FY 2011 to FY 2012	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Budgetary Resources:								
Revenue / Offsetting Collections								
Assessments		$764,410		$795,300		$1,011,100		27.13%
Interest		$20,502		$23,700		$24,275		2.43%
Other Income		1,805		1,200		7,425		518.75%
Total Revenue / Offsetting Collections	0	$786,717	0	$820,200	0	$1,042,800	0.00%	27.14%
Unobligated balances, Start of year		793,371		847,259		864,204		2.00%
Recoveries of prior year obligations		0		0		0		0.00%
Net transfers *(includes capital transfers)*		0		0		0		0.00%
Total budgetary resources available	0	$1,580,088	0	$1,667,459	0	$1,907,004	0.00%	14.37%
Expenses/Obligations								
Supervision	2,700	621,695	2,729	680,090	3,412	900,836	1.07%	32.46%
Regulate	329	98,279	337	107,511	463	111,936	2.43%	4.12%
Charter	72	24,570	74	26,878	101	27,894	2.78%	3.78%
Total Expenses / Obligations	3,101	$744,544	3,140	$814,479	3,976	$1,040,666	26.62%	27.77%

2B – Appropriations Language and Explanation of Changes

The OCC receives no appropriations from Congress.

2C – Legislative Proposals

OCC currently has no legislative proposals.

Section 3 – Budget and Performance Plan

This table lists all FY 2012 resources by strategic goal, objective and outcome outlined in the FY 2007-2012 Treasury Department Strategic Plan. The Treasury Strategic Plan 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/about/budget-performance/strategic-plan/Pages/index.aspx

3.1 – Budget by Strategic Outcome

Dollars in Thousands

Treasury Strategic Outcome	FY 2010 Actual	FY 2011 Estimated	FY 2012 Estimated	% Change FY10 to FY12
Strong U.S. economic competitiveness	79,384	134,389	356,102	164.98%
Prevented or mitigated financial and economic crises	661,039	680,090	684,654	0.67%
Total	**$740,423**	**$814,479**	**$1,040,756**	**27.78%**

3A - Supervise *($900,836,000 from reimbursable programs):* The Supervise program consists of ongoing supervision and enforcement activities undertaken to ensure that each national bank is operating in a safe and sound manner and is complying with applicable laws, rules, and regulations relative to the bank and the customers and communities it serves. This program includes bank examinations and enforcement activities; resolution of disputes through the National Bank Appeals process; ongoing monitoring of banks; and analysis of systemic risks and market trends in the national banking system or groups of national banks, the financial services industry, and the economic and regulatory environment.

3.2.1 Supervise Budget and Performance Plan

Supervise Budget Activity					
Resource Level	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Estimated	FY 2012 Estimated
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$565,921	$597,859	$618,254	$680,090	$900,836
Total Resources	**$565,921**	**$597,859**	**$618,254**	**$680,090**	**$900,836**
Budget Activity Total	**$565,921**	**$597,859**	**$618,254**	**$680,090**	**$900,836**

Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2012 Target
Percent of National Banks With Composite CAMELS Rating 1 or 2 (Oe)	92.0	82.0	70.0	90.0	90.0
Percentage of National Banks that are Categorized as Well Capitalized (Oe)	99.0	86.0	90.0	95.0	95.0
Percentage of National Banks with Consumer Compliance Rating of 1 or 2 (Oe)	97.0	97.0	95.0	94.0	94.0
Rehabilitated National Banks as a Percentage of Problem National Banks One Year Ago (CAMEL 3,4, or 5) (Oe)	47.0	29.0	23.0	40.0	40.0
Total OCC Costs Relative to Every $100,000 in Bank Assets Regulated ($) (E)	8.39	8.81	9.28	9.22	9.22

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

Well Capitalized National Banks

The Federal Deposit Insurance Act established a system that classifies insured depository institutions into five categories (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized) based on their capital levels relative to their risks. Through September 30, 2010, 90 percent of national banks were classified as well capitalized. 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.

National Banks with Composite CAMELS Rating of 1 or 2

The composite CAMELS (**C**apital adequacy, **A**sset quality, **M**anagement, **E**arnings, **L**iquidity, and **S**ensitivity to market risk) rating reflects the overall condition of a bank. Bank regulatory agencies use the Uniform Financial Institutions Rating System, CAMELS, to provide a general framework for evaluating all significant financial, operational, and compliance factors inherent in a bank. The rating scale is 1 through 5 of which 1 is the highest rating granted. CAMELS ratings are assigned at the completion of every supervisory cycle or when there is a significant event leading to a change in CAMELS. Through September 30, 2010, 70 percent of national banks earned composite CAMELS ratings 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. The OCC's primary focus is to ensure that CAMELS ratings are an accurate reflection of each bank's current financial position and thus the OCC 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, the OCC would expect CAMELS ratings to adjust accordingly.

Rehabilitated National Banks
Problem banks ultimately can reach a point at which rehabilitation is no longer feasible. The OCC's early identification and intervention with problem banks can lead to successful remediation of these banks. Through September 30, 2010, 23 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.

National Banks with Consumer Compliance Rating of 1 or 2
To ensure fair access to financial services and fair treatment of bank customers, the OCC evaluates a bank's compliance with consumer laws and regulations. Bank regulatory agencies use the Uniform Financial Institutions Rating System, Interagency Consumer Compliance Rating, to provide a general framework for assimilating and evaluating significant consumer compliance factors inherent in a bank. Each bank is assigned a consumer compliance rating based on an evaluation of its present compliance with consumer protection and civil rights statutes and regulations, and the adequacy of its operating systems designed to ensure continuing compliance. Ratings are on a scale of 1 through 5 in increasing order of supervisory concern. National banks continue to show strong compliance with consumer protection regulations with 95 percent earning a consumer compliance rating of either 1 or 2 through September 30, 2010.

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

3B - Regulate *($111,936,000 from reimbursable programs):* The Regulate program consists of ongoing activities that result in the establishment of regulations, policies, operating guidance, and interpretations of general applicability to national banks. These regulations, policies, and interpretations may establish system-wide standards, define acceptable banking practices, provide guidance on risks and responsibilities facing national banks, or prohibit (or restrict) banking practices deemed to be imprudent or unsafe. This program includes the establishment of examination policies, handbooks, and interpretations for examiners as well as representation of the OCC's regulatory authorities and interpretations in administrative, judicial, and congressional hearings.

3.2.2 Regulate Budget and Performance Plan

Regulate Budget Activity					
Resource Level	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Estimated	FY 2012 Estimated
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$87,583	$94,511	$97,735	$107,511	$111,936
Total Resources	**$87,583**	**$94,511**	**$97,735**	**$107,511**	**$111,936**
Budget Activity Total	**$87,583**	**$94,511**	**$97,735**	**$107,511**	**$111,936**

There are no measures are specified at this time.

3C - Charter *($27,984,000 from reimbursable programs):* The Regulate program consists of ongoing activities that result in the establishment of regulations, policies, operating guidance, and interpretations of general applicability to national banks. These regulations, policies, and interpretations may establish system-wide standards, define acceptable banking practices, provide guidance on risks and responsibilities facing national banks, or prohibit (or restrict) banking practices deemed to be imprudent or unsafe. This program includes the establishment of examination policies, handbooks, and interpretations for examiners as well as representation of the OCC's regulatory authorities and interpretations in administrative, judicial, and congressional hearings.

3.2.3 Charter Budget and Performance Plan

Charter Budget Activity Resource Level	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Estimated	FY 2012 Estimated
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$20,212	$23,628	$24,434	$26,878	$27,984
Total Resources	**$20,212**	**$23,628**	**$24,434**	**$26,878**	**$27,984**
Budget Activity Total	**$20,212**	**$23,628**	**$24,434**	**$26,878**	**$27,984**

Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2012 Target
Percentage of Licensing Applications and Notices Completed within Established Timeframes (Oe)	95.0	95.0	96.0	95.0	95.0

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

Licensing Applications and Notices Completed within Time Frames

The OCC's timely and effective approval of corporate applications contributes to the nation's economy by enabling national banks to complete various corporate transactions and introduce new financial products and services. Delays in providing prompt decisions on applications and notices can deprive a bank of a competitive or business opportunity, create business uncertainties, or diminish financial results. Time frames have been established for completing each type of application and notice. The OCC completed 96 percent of applications and notices within the time standard through September 30, 2010.

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

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

The OCC developed bureau-specific human capital goals to meet its overall strategic goals of ensuring the safety and soundness of national banks and maintaining an expert, highly motivated, and diverse workforce. The first goal is to align and employ the OCC workforce resources consistent with current and projected agency priorities. To help achieve this goal, on an annual basis, the OCC identifies business changes and imperatives, and assesses its current staffing structure to identify potential recruitment challenges and skill imbalances/gaps. The agency then develops strategies to meet these challenges and approve incentives specifically designed to address them. Other strategies include:

1. using all qualified personnel on priority assignments, realizing the increasing dependence and need for "fungibility" among and within various disciplines;
2. using the midsize/community banks area as the primary entry-level recruitment, training, and development vehicle to provide a diverse bank examiner selection pool for many departments and divisions in the bureau; and
3. identifying skill gaps and using them to establish recruitment and training priorities as part of ongoing strategic staffing discussions.

The OCC has implemented several programs to increase and strengthen its examiner and leadership pools. The OCC has a highly-successful college hiring and training team program to ensure a steady pipeline of entry-level bank examiners. Since the program's inception in FY 2003, 911 examiners have been hired, including 82 in FY 2010. While the OCC expects hiring generally to continue at current levels, strategies are being reviewed to ensure that the OCC has an integrated staffing process that allows supervision resources to be deployed to their highest and best use and maximizes staff development opportunities in alignment with the OCC's national priorities.

The OCC has focused heavily on recruiting the expertise needed to fill positions in the agency's Chief National Bank Examiner's office and Large Bank Supervision line of business. The OCC has also recognized the challenge of ensuring that it has the skill sets needed now and in the future to supervise the increasingly complex array of activities and businesses found in the national banking system. As a result, the OCC uses a framework to assess where and when specialized skills are needed and to ensure it has the staffing necessary to meet those needs. This framework, the Specialty Skills Assessment, allows the OCC to measure gaps in its current skill levels in eight critical business areas (Asset Management, Bank Information Technology, Capital Markets, Compliance, Commercial Lending, Retail Lending, Mortgage Banking, and Operational Risk) and to develop strategic plans to fill those gaps. It establishes a standard process to identify an individual's specialty skills, and the levels of those skills, which can be compared to actual examination resources necessary for the effective supervision of national banks. These skill level designations are made on an annual basis. Also, on an annual basis, there is a review of the policy to ensure that the criteria used to determine assignment complexity and assess examiner skill levels in each specialty remain current and relevant as the industry evolves. Assessment results aid examination staffing and recruiting initiatives, and provide employees and managers with a valuable tool that can be used to identify developmental opportunities to further an individual's career objectives.

In further recognition of the need to provide expert-level support related to the current financial and housing market situations, the OCC requested and was granted authority to waive the dual compensation reduction to reemploy certain annuitants. The extensive knowledge and superior skills reemployed annuitants have developed in specific specialty areas are an invaluable resource. Since being granted this authority by the Office of Personnel Management, the OCC has reemployed 21 annuitants. In October 2010, the OCC used the government-wide authority to extend this program.

In 2004, the agency focused attention on bringing back to the OCC, diverse talent that had separated for reasons other than retirement. These individuals leave the OCC, then return, bringing new knowledge, skills and experiences. In 2009, 54 percent of the "experienced" hires returned, up from 44 percent in 2008. In the last two fiscal years, women and minorities accounted for 58 percent of the re-hires, up from 52 percent in FY 2005-2007.

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

A third human capital goal is to maintain strategic compensation and benefit programs and performance systems that link with organizational goals and mission accomplishment, which enables the OCC to recruit and retain critical positions, and reward high performers. The OCC operates under a merit-based pay and performance system. Annual across-the-board increases are not granted. Salary increases are awarded based on merit to reward employee performance, employee development that is relevant to the OCC's needs, and employee contributions to the OCC's priorities.

To assure the agency accomplishes this goal, the OCC is nearing completion of a study of its compensation program to assess the appropriateness of the pay bands, evaluate the relationship between performance management and merit pay systems, and evaluate the current compensation policies and programs to ensure they support the OCC in attracting, retaining, and motivating a high-caliber workforce.

The OCC's human capital goals for FY 2011 and FY2012 will focus on strategies and initiatives to effectively and efficiently transition resources transferring from the OTS to OCC.

The OCC is confident these strategies will address any deficiencies in staffing and skills, ensuring its ability to have the right number of people with the right skills to accomplish its critical mission.

4.1 – Summary of IT Resources Table

Dollars in Thousands

Major IT Investments / Funding Source	Budget Activity	FY 2009 Enacted	FY 2010 Enacted	% Change from FY 2009 to FY 2010	FY 2011 Annualized CR Level	FY 2012 Request	% Change from FY 2010 to FY 2012
	Audit and Investigations	$0	$457	100.0%	$1,860	$1,260	175.7%
Subtotal, Major IT Investments		$0	$457	100.0%	$1,860	$1,260	175.7%
Continuing Operating Costs	Audit and Investigations	$0	$478	100.0%	$700	$700	46.4%
Other Non-Major Costs	Audit and Investigations	$0	$322	100.0%	$342	$342	6.2%
Non-Major IT Investments		$0	$800	100.0%	$1,042	$1,042	30.3%
Infrastructure Investments		$0	$2,678	100.0%	$3,838	$2,988	11.6%
Enterprise Architecture		$0	$0	0.0%	$0	$0	0.0%
Enterprise Identity and Access Management		$0	$0	0.0%	$0	$0	0.0%
Total IT Investments		$0	$3,935	100.0%	$6,740	$5,290	34.4%

4B – Information Technology Strategy

The OCC's Information Technology (IT) strategic plan is embodied within its 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 2010, the OCC established specific IT goals to leverage IT as a strategic business enabler to support the OCC's strategic goals.

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

The overall strategy to effectively use technology to support the mission, goals, and objectives of the agency is enforced by the Investment Review Board (IRB), comprised of business unit and IT representatives from across the agency. The IRB makes recommendations to the OCC's Technology and Systems Subcommittee (TSS). Both the IRB and TSS meet regularly to select, monitor, and control IT investments. This process ensures that the overall IT strategy has adequate funding, resources, and prioritization, and provides risk mitigation for IT investments that are not meeting stated cost, time and performance goals.

Linkage to the OCC programs and strategic goals are documented in each project business case and prioritized by the IRB and TSS. Performance metrics are linked to the delivery, alignment, and achievement of the OCC strategic program objectives. The OCC employs project management methodologies that are based on risk management and mitigation. The risks are actively monitored at both IRB and TSS meetings.

The OCC's technology strategy in FY 2011 and FY 2012 will include the integration of the OTS legacy systems.

FYs 2011-2012 Plans

The OCC has two new major IT initiatives planned in FYs 2011-2012.

Central Application Tracking System (CATS) - This initiative will significantly improve the accuracy, tracking, monitoring, recording, and reporting of the applications and notices by the Licensing and Community Affairs Departments. The overall objective is to: 1) develop a workflow and business processing system that will provide the ability to electronically capture and effectively monitor and report on the processing of applications and notifications filed with the Licensing and Community Affairs Departments, and 2) take advantage of innovative technologies to create process efficiencies.

Personnel Administration and Security System (PASS) - This initiative will improve and automate core personnel security processes, including on-boarding and off-boarding. The PASS initiative will bring the OCC into compliance with audit and Homeland Security Presidential Directive 12 (HSPD-12) requirements.

Homeland Security Presidential Directive-12 (HSPD-12)

In FY 2010, the OCC continued to install and upgrade HSPD-12 compliant Physical Access Control Systems (PACS) nationwide. In addition, the OCC continued to phase out existing proximity security cards with the goal of transitioning exclusively to HSPD-12 SmartID cards for all OCC employees and contractors. The OCC also began to integrate HSPD-12 policy, procedures and SmartID card usage into other existing agency processes moving towards full HSPD-12 compliance by the established Treasury and Federal milestones.

During FY 2011, the OCC will install 33 new HSPD-12 compliant PACS systems and upgrade four non-compliant PACS systems, currently in place at the OCC facilities. In addition to these upgrades, the OCC will also start installing systems which will allow the checking and verification of personal identity verification (PIV) certificates and the provisioning of PIV cards directly into the OCC PACS. The OCC will continue to issue PIV cards to all employee and contractor personnel, which will eliminate all agency produced access control cards.

During FY 2012, the OCC will complete all remaining PACS installations and complete the full integration of the HSPD-12 program for physical access. One of the major goals is to ensure all new employees and contractors receive their PIV card on their first day of work. The OCC has taken steps and continues to put procedures in place through existing programs to ensure this goal is achieved. The OCC anticipates being able to provide all new employees and contractors with an activated PIV card on their first day of employment during FY 2012.