Office of Thrift Supervision

OMB FY 2008
Budget & Performance Plan

Submitted January 2008

Overview

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 2007	FY 2008	FY 2009		
Office of Thrift Supervision	Obligated	Estimated	Estimated	$ Change	% Change
Supervision of the Thrift Industry	$232,500	$245,500	$251,638	$6,138	2.50%
Total Resources	**$232,500**	**$245,500**	**$251,638**	**$6,138**	**2.50%**

FY 2009 Priorities

OTS's FY 2008 Priorities are set forth below:

- Comprehensive and Risk Focused Examinations,
- Interest Rate and Credit Risks including sub-prime mortgage lending,
- Compliance Risks, Financial Crimes, Data Breaches, and Information Security,
- Disaster and Emergency Preparedness,
- Global Financial Services,
- Regulatory Burden Reduction,
- Communicate the benefits of the Thrift Charter, and
- Succession Planning and Management of OTS Resources.

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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). OTS's primary statutory authority is the Home Owners' Loan Act originally enacted in 1933. OTS also examines, supervises, and regulates state-chartered savings associations insured by the FDIC and provides for the registration, examination, and regulation of savings and loan holding companies (SLHCs) and other affiliates.

The thrift charter has several unique characteristics including nationwide branching under a single charter; a holding company structure offering a single regulator for the holding company and its subsidiary depository institution; and preemption authority. OTS is the only federal-banking agency that both charters depository institutions and supervises their holding companies. The thrift charter continues to flourish as institutions change and adapt their business strategies and focus. OTS supervised holding companies are diverse, ranging from large, multinational corporations to small companies with few assets other than their thrift charter. As of September 30, 2007, OTS supervised 470 holding company enterprises with approximately $8.5 trillion in U.S. domiciled consolidated assets. Over half of all savings associations and 83 percent of total savings association assets are owned by OTS regulated holding companies.

The thrift industry is strong and well capitalized. As of September 2007, OTS regulated 831 savings associations with total assets of $1.57 trillion. Savings associations operate in a safe and sound manner with 93 percent achieving an overall composite CAMELS rating of 1 or 2. The CAMELS rating reflects OTS's evaluation of an institution's Capital, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to market risk. The industry's capital position remains strong with 99 percent of savings associations meeting the well-capitalized standards.

<u>OTS Vision, Strategic Goals and Priorities</u>

OTS's vision is to perform and be recognized as the premier regulator of financial institutions and holding companies. The FY 2008 budget submission is guided by the four strategic goals outlined in the 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.
- A professional, highly motivated, and diverse workforce that effectively uses OTS resources to provide exceptional service to its customers.

OTS's FY 2008 budget of $245.5 million supports OTS's efforts to address these key strategic issues and challenges:

- Examine, supervise, and regulate 831 savings associations with total assets of $1.57 trillion
- Supervise 470 holding company enterprises with approximately $8.5 trillion in consolidated assets,
- Tailor examinations to the risk profile of the institution and streamline the examination of smaller institutions,
- Conduct safety and soundness examinations of savings associations every 12-18 months that also incorporates an assessment of compliance with consumer protection laws and regulations,
- Promote the reduction of regulatory burden,
- Coordinate supervisory and policy development activities with relevant domestic and foreign financial regulators,
- Abate money laundering and terrorist financing by examining savings associations for compliance with the Bank Secrecy Act, the USA PATRIOT Act, and other anti-money laundering laws,
- Communicate the benefits of the thrift charter and the important role of community-based thrifts,
- Continue efforts to implement the international Basel II risk-based capital framework, and
- Address succession planning.

1B – Program History and Future Outlook

OTS is headquartered in Washington, D.C. with five regional offices located in Jersey City, Atlanta, Chicago, Dallas, and San Francisco. The headquarters office develops nationwide policies and programs for the agency and coordinates the operations of OTS. The regional offices examine and supervise institutions and process most applications. Approximately 72 percent of OTS's staff of 1,028 employees work in OTS's regional offices.

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

The following activities highlight FY 2007 OTS accomplishments and FY 2008 strategic priorities and challenges.

Comprehensive Examination Approach

OTS conducts a comprehensive examination combining safety and soundness and compliance reviews to eliminate multiple reviews of the same area for different purposes. OTS's examination teams issue one report of examination that covers both compliance and safety and soundness. This approach allows OTS to comprehensively assess an institution's risk management programs, business strategy, and operations with a top-down, risk-focused approach that promotes comprehensive compliance management, including the establishment of adequate internal controls to ensure regulatory compliance and to prevent predatory practices. OTS is also able to evaluate compliance management programs and compliance with the Bank Secrecy Act, Fair Lending, and Flood Disaster Protection on a more frequent basis.

OTS is more efficient and has reduced regulatory burden due to its comprehensive examination approach. It issues one information request package prior to the start of each examination and examines lending portfolios from both compliance and safety and soundness perspectives at the same time. 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 indicate a favorable response to the comprehensive examination approach.

To maintain its rigorous staff accreditation standards, OTS requires that its examiners: 1) undergo formal, informal, and independent training, 2) pass proficiency tests, 3) receive on-the-job training to become proficient in examination disciplines and 4) serve as examiner-in-charge of at least two comprehensive examinations prior to accreditation. OTS continually works to provide specialized training, rigorous accreditation and professional development programs, and other supervisory tools to ensure OTS is capably equipped to supervise a dynamic and growing industry. OTS also recognizes that there are very complex and highly technical issues that arise in connection with our comprehensive examination approach. For this reason, OTS continues to maintain compliance, lending, capital markets, trust, and information technology specialists to assist examiners in addressing these matters.

Interest Rate and Credit Risks

As community-based lenders, thrifts remain focused on residential mortgage lending with 50.7 percent of assets invested in 1-4 family mortgage loans as of September 30, 2007. Given this concentration, thrift asset quality is dependent on stable real estate values and consumers' continued employment and ability to service their debt.

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 maintains an interest rate risk sensitivity model that stress-tests savings association portfolios to evaluate potential exposure to changing interest rates. OTS remains cautious of the potential impact of a rapid increase in market interest rates and will remain vigilant in monitoring savings associations for adverse trends. In 2006, OTS enhanced its state of the art Net Portfolio Value (NPV) Model to expand OTS's off-site interest rate risk monitoring capability and improve the efficiency and effectiveness of on-site examinations. The NPV model improves the agency's unique ability to provide OTS regulated institutions with quarterly estimates of their interest rate risk exposures.

Alternative or nontraditional mortgage lending products (such as variable rate mortgages, pay option ARMS or interest only) present a unique hybrid of credit and interest rate risks. Credit risk in mortgage lending, typically managed by sound underwriting criteria, is more complex with these nontraditional lending products. In 2006 the federal financial regulatory agencies issued guidance to address the risks posed by these types of loans, recommending that management recognize these products require strong risk management standards, capital levels commensurate with the risk, and a loan loss allowance reflective of the portfolio collectibility. On May 31, 2007 the regulatory agencies issued final illustrations of consumer information intended to help institutions implement the consumer protection portion of the Interagency Guidance on Nontraditional Mortgage Product Risks that the agencies adopted October 4, 2006. The guidance addresses the risks posed by residential mortgage products that allow borrowers to defer repayment of principal and sometimes interest. It describes sound practices for managing risk and supplements existing OTS guidance on these products.

OTS and the other banking agencies worked with the Conference of State Bank Supervisors and American Association of Residential Mortgage Regulators to encourage individual states to adopt the guidelines for mortgage brokers under their supervision. The banking regulators also encouraged financial institutions to work with residential borrowers that are unable to meet their contractual home loan obligations.

The thrift industry's current sound financial condition permits it to address potential credit quality problems from a position of strength. Thrifts continue to take appropriate steps in response to the continued weakness in the housing market by maintaining strong capital and increasing their provisions for loan losses. The ability of the industry to post solid earnings while continuing the provisioning for loan losses, and the current strong capital position, will help the industry weather any further weakening in the housing markets.

Compliance Risks

An OTS-regulated institution is required to have an effective compliance management program that is commensurate with its size, complexity, and risk profile. OTS examiners assess whether an institution is ensuring the privacy and security of consumer financial information, guarding against money laundering and terrorist financing, and ensuring fair and equal access to credit for all customers.

OTS examines for Bank Secrecy (BSA), the USA PATRIOT Act, and other Anti-money Laundering (AML) compliance. Between January 1, 2006 and June 30, 2007, OTS conducted 884 BSA examinations and cited 148 institutions for violations. Most violations were remedied during the examination process and resulted in no further action. The others resulted in OTS initiating 40 enforcement actions.

On July 19, 2007, the federal financial regulatory agencies issued a statement setting forth the agencies' policy for enforcing specific anti-money laundering requirements of the Bank Secrecy Act (BSA). The purpose of the *Interagency Statement on Enforcement of Bank Secrecy Act/Anti-Money Laundering Requirements* is to provide greater consistency among the agencies in enforcement decisions in BSA matters and to offer insight into the considerations that form the basis of those decisions.

OTS's compliance program is structured to ensure that thrifts keep credit information confidential, fight identity theft, and ensure the accuracy of consumers' credit reports. Data security is reviewed at thrifts and third party technology service providers. The Gramm-Leach-Bliley Act requires that all financial institutions establish a program to protect their customer's personal information. OTS, with the other financial banking agencies, issued guidance regarding data security, security breach notification requirements, and electronic authentication in an electronic banking environment.

Thrifts provide services that encourage home ownership and affordable housing and contribute to economic growth. As of the end of September 2007, thrifts held over $1 trillion in housing-related loans and securities. In March 2007, OTS revised its Community Reinvestment Act (CRA) regulations to reestablish uniformity between its regulations and those of the other federal banking agencies. The alignment best serves the interests of insured depository institutions and their communities by providing for consistency in regulation and compliance. The vast majority of OTS institutions are in compliance with the Community Reinvestment Act. OTS's compliance reviews help to ensure fair and equal access to credit for all Americans.

<u>Emergency and Disaster Preparedness</u>

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

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

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

Global Financial Services

OTS's Complex and International Organization program oversees OTS's global services. The European Union (EU) seeks to ensure that financial conglomerates domiciled outside EU member countries are subject to an equivalent level of supervision by foreign supervisors and to enhance coordination among relevant supervisors. OTS is the supervisor for U.S. thrift holding companies, including a number of financial conglomerates active in the EU. OTS was the first regulatory authority to be designated a consolidated coordinating regulator of a holding company with operations in the EU. The EU designation was received in December 2004 for OTS's oversight of GE Capital Services, in September 2006 for Ameriprise, and January 2007 for the American International Group, Inc. (AIG). The supervision and examination of GE, AIG, and Ameriprise are managed by a group solely dedicated to that task in Supervision.

The federal banking agencies are continuing efforts to implement the international Basel II risk-based capital framework. In early November, 2007, the Federal Reserve, the Office of the Comptroller of the Currency, the OTS, and the Federal Deposit Insurance Corporation approved a final rule regarding the advanced approaches for computing large banks' risk-based capital requirements. That rule should be published in the Federal Register before year-end, with an effective date of April 1, 2008. The federal banking agencies also plan to propose, in the first quarter of 2008, a standardized capital framework as an option for all remaining U.S. banks that will not be required to adopt the advanced approaches. This proposal will introduce a capital framework similar to that which is available in many other countries. By design, it should also mitigate some concerns about domestic competitive equity raised by the adoption of the advanced approaches. It will supplant the now-abandoned Basel IA proposal.

Regulatory Burden Reduction

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 changes could be made 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 President Bush signed it 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.

Staffing and Succession Planning

Fifty-five percent of OTS's current staff will reach retirement eligibility by the end of 2010. OTS is actively addressing succession planning and the corresponding training needs. Over 70 new examiners were hired during fiscal year 2007 and OTS upgraded its training program for new and existing examiners. OTS's compensation program enables OTS to attract, retain, and reward staff comparable to the other federal banking agencies.

1C – Industry Outlook

The thrift industry continues to fulfill its traditional role as a mortgage lender. Capital levels remain strong and earnings remain positive, despite the pressures on earnings and asset quality resulting from the growing weaknesses in the housing market, rising mortgage delinquencies and foreclosures, and deterioration in secondary market liquidity.

As of September 30, 2007, 99 percent of all thrifts exceed the regulatory standard to qualify as "well-capitalized". Net income for fiscal year 2007 totaled $11.3 billion. The number of problem thrifts — those with composite examination ratings of 4 or 5 ─ was up from ten thrifts in June 2007 to 12 as of September 2007.

Financial services consolidation has reduced the overall number of savings institutions, but industry asset size has remained stable. OTS expects this to continue. OTS has worked closely with the industry to maintain the integrity and viability of the thrift charter 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

Dollars in Thousands

Bureau: Office of Thrift Supervision	**FY 2007 Obligated**	**FY 2008 Estimated**	**FY 2009 Estimated**
FTE	**1,015**	**1,104**	**1,104**
Object Classification:			
11.1 - Full-time permanent	115,224	122,981	126,056
11.3 - Other than full-time permanent	2,217	4,194	4,298
11.5 - Other personnel compensation	0	0	0
11.8 - Special personal services payments	0	0	0
12 - Personnel benefits	67,085	65,274	66,906
13 - Benefits for former personnel	300	190	195
21 - Travel and transportation of persons	13,984	15,562	15,951
22 - Transportation of things	241	287	294
23.1 - Rental payments to GSA	0	0	0
23.2 - Rental payments to others	3,944	4,384	4,494
23.3 - Comm, utilities, and misc charges	3,582	4,335	4,443
24 - Printing and reproduction	216	306	314
25 - Other contractual Services	0	0	0
25.1 - Advisory and assistance services	2,161	3,326	3,409
25.2 - Other services	5,623	8,851	9,072
25.3 - Other purchases of goods and services from Govt. accounts	3,923	3,674	3,766
25.4 - Operation and maintenance of facilities	5,220	4,195	4,300
25.5 - Research and development contracts	0	0	0
25.6 - Medical care	0	0	0
25.7 - Operation and maintenance of equip	328	311	319
25.8 - Subsistence and support of persons	0	0	0
26 - Supplies and materials	1,669	2,069	2,121
31 - Equipment	5,544	4,342	4,451
32 - Land and structures	1,239	1,219	1,249
33 - Investments and loans	0	0	0
41 - Grants, subsidies, and contributions	0	0	0
42 - Insurance claims and indemnities	0	0	0
43 - Interest and dividends	0	0	0
44 - Refunds	0	0	0
Total Budget Authority	$232,500	$245,500	$251,638
Budget Activities:			
Supervision of the Thrift Industry	232,500	245,500	251,638
Total Budget Authority	$232,500	$245,500	$251,638

2.3 – Resource Detail Table

Description	FY 2007 Actual	FY 2008 Estimated	FY 2009 Estimated	% Change FY 2008 to FY 2009
Summary of Revenue and Expenses:				
Revenue:				
Supervision				
Assessments	$217,506	$220,000	$225,500	2.50%
Rental Income	4,984	4,950	5,074	2.50%
Interest	11,528	11,000	11,275	2.50%
Fees & Other	8,791	16,050	16,451	2.50%
Total Revenue	$242,809	$252,000	$258,300	2.50%
Expenses:				
Supervision				
Compensation & Benefits	$172,778	$192,639	$197,455	2.50%
Travel & Transportation	15,198	15,849	16,245	2.50%
Facilities	16,880	14,280	14,637	2.50%
Other Services & Supplies	13,273	22,732	23,300	2.50%
Total Expenses	$218,129	$245,500	$251,637	2.50%
Net Results	$24,680	$6,500	$6,663	2.50%

2B – Appropriations Language and Explanation of Changes

OTS receives no appropriated funds from Congress.

2C – Legislative Proposals

OTS currently has no legislative proposals for FY 2008.

Section 3 – Budget and Performance Plan

This table lists all FY 2009 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 2008 Estimated** AMOUNT	**FY 2009 Estimated** AMOUNT	**Percent Change** AMOUNT
Economic competitiveness	24,550	25,164	**2.5%**
Fin. & econ.crises	220,950	226,474	**2.5%**
Total	**$245,500**	**$251,638**	**2.5%**

3A – Supervision of the Thrift Industry *($251,638,000 from reimbursable programs):* OTS examines savings associations every 12 – 18 months for safety and soundness and compliance with consumer protection laws and regulations. During these exams, the association's ability to identify, measure, monitor, and control risk is evaluated, including the risk posed by other entities within the corporate structure. When weaknesses are identified, supervisory action is taken.

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

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

Strategic Goal 1: A safe and sound thrift industry.

Through the examination process, OTS assesses the financial condition and risk profile of savings associations, including their ownership structure, and identifies and addresses unsafe and unsound practices and violations of law and regulation. Through the off-site monitoring process, OTS regularly monitors the financial performance of individual savings associations and the industry. Such monitoring enables early identification of emerging trends or problems.

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

OTS's Community Affairs Program supports the thrift industry's efforts to meet the convenience and needs of the communities they are chartered to serve; fulfill their CRA obligations; and provide safe and sound loans, investments and financial services for low and moderate income individuals, communities and other areas of greatest need. OTS's Community Affairs staff works with savings associations, community-based organizations, government officials and others to promote partnerships and other initiatives with savings associations at the local level to address and respond to community and economic development needs. In addition, OTS promotes industry adoption of comprehensive compliance management programs and encourages associations to strategically develop the diverse opportunities presented by the communities they are chartered to serve.

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

OTS strives to reduce the regulatory burden on savings associations while maintaining effective supervision. To achieve this goal, OTS is improving the application process, limiting assessment rate increases and reviewing statutes and regulations of other governmental entities that may be burdensome. OTS reduced the amount of on-site examination time, redesigned regulations to make them easier to understand, and eliminated unnecessary restrictions. OTS tailors examinations to the risk profile of the individual institutions. This ensures that the examination process is responsive and enables the thrift industry to provide competitive financial services.

OTS strives to manage operations to ensure that assessment rate increases do not exceed the inflation rate. Without compromising responsibilities, the assessment rate increases have not exceeded the inflation rate for the past four years.

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

OTS strives to maintain a workforce that is professional and well trained to regulate the thrift industry and to deal with the public in a professional, informed, and responsive manner. OTS will continue to cross-train its examiners in both the safety and soundness and compliance disciplines. OTS provides the public with statistical reports, securities filings of OTS registrants, chartering records and other public information. OTS assists savings association customers with inquiries and complaints concerning savings associations.

In line with the President's Management Agenda, OTS is committed to the effective, efficient, and economic management of its resources. OTS analyzes new enterprise initiatives for best value.

3.2.1 – Supervision of the Thrift Industry Budget and Performance Plan

Supervision of the Thrift Industry Budget Activity Resource Level	FY 2005 Obligated	FY 2006 Obligated	FY 2007 Obligated	FY 2008 Estimated	FY 2009 Estimated
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$187,434	$199,497	$232,500	$245,500	$251,638
Total Resources	**$187,434**	**$199,497**	**$232,500**	**$245,500**	**$251,638**
Budget Activity Total	**$187,434**	**$199,497**	**$232,500**	**$245,500**	**$251,638**

Supervision of the Thrift Industry Budget Activity Measure	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Target	FY 2009 Target
Total OTS costs relative to every $100,000 in savings association assets regulated ($) (E)	$	$ 13	$ 14	$ 15	$ 14
Percent of safety and soundness exams started as scheduled (%) (Ot)	93.00%	94.00%	95.00%	90.00%	90.00%
Percent of thrifts that are well capitalized (%) (Oe)	99.50%	99.90%	99.00%	95.00%	95.00%
Percent of thrifts with compliance examination ratings of 1 or 2 (%) (Oe)	94.00%	93.00%	97.00%	90.00%	90.00%
Percent of thrifts with composite CAMELS ratings of 1 or 2 (%) (Oe)	94.00%	93.00%	93.00%	90.00%	90.00%

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

OTS met all of its performance measure targets in FY 2007 and plans to maintain its current high level of achievement for all performance measures. The following is a brief description of each performance measure:

Percent of thrifts with composite CAMELS ratings of 1 or 2.

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

Percent of thrifts with compliance examination ratings of 1 or 2.

A uniform, interagency compliance rating system was first approved by the FFIEC in 1980. The FFIEC rating system was designed to reflect, in a comprehensive and uniform fashion, the nature and extent of a savings association's compliance with consumer protection statutes, regulations and requirements. The Compliance Rating System is based upon a scale of 1 through 5 in increasing order of supervisory concern.

OTS elected to combine safety and soundness and compliance examinations in 2002 to attain exam efficiencies and to improve risk assessment. Using comprehensive exam procedures, compliance with consumer protection laws is reviewed at more frequent intervals, which has improved the quality of the examination process.

Percent of thrifts that are well capitalized.

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

Percent of safety and soundness exams started as scheduled

OTS examines savings associations every 12-18 months for safety and soundness, compliance and consumer protection laws. OTS performs safety and soundness examinations of its regulated savings associations consistent with statutory authority. When safety and soundness or compliance issues are identified during its risk-focused examinations, OTS 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.

Difference between the inflation rate and the OTS assessment rate increase.

Without compromising responsibilities and the risk-based examination approach, OTS strives to efficiently manage its operations and budget to ensure that assessment rate increases do not exceed the inflation rate without compromising OTS's responsibilities and the risk-based examination approach. However, if OTS believes that events require more personnel or other expenditures, OTS may increase assessments to raise the required resources. Annually, OTS analyzes its operating costs and compares them to the assessments it charges savings associations and holding companies in order to achieve a structure that keeps assessment rates as low as possible while providing OTS with the resources necessary for effective supervision.

Total OTS Costs Relative to Every $100,000 in Savings Association Assets Regulated

Beginning in FY 2006, OTS included a performance measure that reflects the efficiency of its operations while meeting the increasing supervisory demands of a growing and more complex thrift industry. This measure supports OTS's ongoing efforts to efficiently use agency resources. The efficiency measure is impacted by the relative size of the savings associations regulated. Approximately 60 percent of all savings associations have total assets of less than $250 million and are generally community-based organizations that provide retail financial services in their local markets. The measure does not include over $8.5 trillion in assets of holding company enterprises regulated by OTS.

For detailed information about each performance measure, including definition, verification and validation, please go to:
http://www.treasury.gov/offices/management/dcfo/accountability-reports/2007-par.shtml

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

Human capital represents OTS's primary resource to meet its strategic objectives. Sustaining and nurturing human capital resources requires a blend of 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 follows the Department of the Treasury's Human Capital Strategic Plan for Fiscal Years 2004-2008 and incorporates strategies and practices to ensure that OTS has sufficient staff with the right skills to accomplish its mission presently and in the future. The Plan consists of four main strategic goals: Organizational Effectiveness, Recruitment and Diversity, Employee Retention and Satisfaction, and Technology Skills.

Fifty-five percent of OTS's current staff will reach retirement eligibility by year-end 2010. OTS is developing a revitalized succession planning program to analyze specific positions and categories of positions, identify internal and external pools of available and projected candidates, and design professional development programs to match these needs. Over 70 new examiners were hired during 2007. OTS's compensation program enables OTS to attract, retain, and reward staff comparable to the other federal banking agencies.

OTS is working to cross train its examination staff to create a work force capable of performing multiple examination types (e.g., safety and soundness examinations and compliance examinations), as well as designing training programs to meet the challenges OTS faces with anticipated retirements as part of its overall succession planning program.

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

4.1 – Summary of IT Resources Table

Dollars in Thousands

Information Technology Investments Major IT Investments / Funding Source	Budget Activity	FY 2006 & Earlier Enacted 1/	FY 2007 Enacted	FY 2008 President's Budget	% Change from FY07 to FY08	FY 2009 Requested	% Change from FY08 to FY09
Major IT Investments		$0.0	$0.0	$0.0	0.0	0.0	0.0
Non-Major IT Investments							
Administrative - Mixed	Supervision	$851.5	$863.9	$975.0	11.4%	$999.0	2.4%
Examinations	Supervision	$1,915.8	$1,799.9	$1,632.0	-10.3%	$1,673.0	2.5%
Thrift Financial Data	Supervision	$2,596.8	$3,522.2	$3,105.0	-13.4%	$3,182.0	2.4%
TFR Validation	Supervision	$1,532.6	$1,555.1	$1,507.0	-3.2%	$1,544.0	2.4%
Industry Structure and Tracking	Supervision	$1,745.5	$1,532.0	$1,140.0	-34.4%	$1,169.0	2.5%
CIO Planning	Supervision	$1,953.7	$1,757.4	$1,920.0	8.5%	$1,968.0	2.4%
Total Non-Major IT Investments		$12.2	$11,030.5	$10,279.0	-7.3%	$10,535.0	2.4%
Infrastructure Investments							
Treasury Consolidated Data Center & Services		$2,770.0	$3,754.8	$7,801.0	51.9%	$7,996.0	2.4%
Treasury Consolidated Telecommunications		$921.6	$814.2	$1,750.0	53.5%	$1,793.0	2.4%
Treasury Consolidated End User Services		$2,732.0	$2,987.7	$3,360.0	11.1%	$3,444.0	2.4%
Treasury Consolidated Security		$865.8	$1,710.6	$0.0	0.0%	$0.0	0.0%
Total Infrastructure Investments		$7,289.4	$9,267.3	$12,911.0	28.2%	$13,233.0	2.4%
Enterprise Architecture		$170.3	$115.0	$148.0	2.5%	$151.0	2.0%
Total IT Investments		$21.6	$20,412.8	$23,338.0	2.5%	$23,919.0	2.4%

4B – Information Technology Strategy

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

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

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

OTS successfully implemented the Personal Identity Verification (PIV) process in 2006 to comply with the PIV-1 requirements of Homeland Security Presidential Directive 12 (HSPD-12). OTS will work with Treasury's team to implement a new identity management program and to issue new smartcard badges.

During 2007, OTS provided timely and efficient technological assistance and solutions to meet regulatory responsibilities and improve operations. OTS continues to make progress in achieving OMB's, requirements for full-disk encryption and two-factor authentication. At year end 2006, all of our remote user workforce and regional office staff hard-drives were fully encrypted. Full encryption of Washington staff machines was complete by the end of the 2007 calendar year.

OTS is working to develop a security program that adequately addresses the National Institute of Standards and Technology (NIST) requirements while being manageable for a small agency. OTS strengthened its IT Security program during FY 2006 and hired five new security professionals who are dedicated to addressing operational and regulatory security requirements. OTS also separated Operational Security into a distinct team to address day-to-day security concerns and activities. OTS will strive to improve the Federal Information Security Management Act (FISMA) posture by implementing new processes compliant with the NIST standards and by recertifying its national systems.

OTS has no major IT investments planned for FY 2008.

4.2 – PART Evaluation Table

For a complete list of PART results visit the following website:
http://www.whitehouse.gov/omb/expectmore/all.html

PART Name: Thrift Supervision	
Strategic Goal:	Increase the reliability of the U.S. financial system (F3)
Rating:	Effective

OMB Major Findings

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

OMB Recommendations

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

OTS Actions Taken

1. OCC and OTS worked together throughout the strategic and performance planning efforts to ensure that their strategic goals were closely aligned. The banking regulatory agencies share their strategic and performance plans with each other and meet quarterly to discuss strategic and performance planning.
2. Based on feedback received over the past two years, the vast majority of the industry prefers the efficiency and effectiveness of a joint examination. OTS eliminated much of the redundancy of two separate exams. OTS will fulfill its statutory examination responsibilities with less FTEs as a result of this change.
3. During the 2004 strategic planning process, systemic risks were examined and addressed in the Plan.

OTS Actions Planned or Underway

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