



III *Operations and Accomplishments*

The Office of the Comptroller of the Currency supervises institutions representing 67 percent of the nation’s banking assets, ranging from small agricultural banks in the farm belt to the largest banks in the world—including some with more than a trillion dollars in assets.

Large bank supervision is accomplished in part through teams of experienced examiners assigned full-time to individual institutions. They are supported by all of the resources a national regulator can bring to the task, including a strong legal staff and experts in a variety of risk areas, such as capital markets, bank technology, credit risk, and compliance. In addition, Ph.D. economists—the OCC’s “quants”—work with national bank examiners to evaluate the complex models banks use to manage risk.

Community institutions, the economic backbone of America’s communities, represent by far the largest number of banks supervised by the OCC. The OCC has a network of field offices that examine these smaller banks in every state in the country. Each field office oversees a portfolio of banks, and the examiners are frequently on the road, traveling from bank to bank for examinations.

In between are mid-size national banks that have outgrown the community bank category and share some attributes with large banks. This bank segment draws examiners from Large Bank Supervision as well as the ranks of community bank examiners. Mid-size banks are key training grounds for examiners who typically start their careers in community banks, then can move into specialized fields in large banks as their expertise grows.

In addition, the OCC supervises credit card banks, uninsured national trust companies, and federal branches of foreign banks.

The national banking industry is diverse, competitive, and constantly changing, requiring the OCC to evolve with the industry. The keys to the OCC’s success as a banking regulator are the dedicated and highly skilled professionals who work for the agency. To ensure that the agency has the

skills to keep pace with an evolving industry and to ensure continued strong leadership as the baby boom generation reaches retirement, the OCC has made top priorities of staff recruitment, retention, training, and the development of a new generation of leaders.

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Fiscal Year 2006 Highlights

- Issued Interagency Guidance on Nontraditional Mortgage Products, which addressed issues raised by interest-only and payment-option mortgage loans.
- Published the revised Federal Financial Institutions Examination Council (FFIEC) *Bank Secrecy Act/ Anti-Money Laundering (BSA/AML) Examination Manual* to provide bankers and bank examiners with comprehensive guidance and resources about requirements and the agencies' expectations.
- Exceeded recruiting goals by hiring 162 entry-level bank examiners, adding to a highly qualified and diverse pool of talent. Also brought aboard a record number of mid-career banking specialists.
- Proposed legislation passed by Congress to raise the limit on banks' investments in urban revitalization and rural redevelopment.
- Hosted a forum in New Orleans with other banking agencies titled "The Future of Banking on the Gulf Coast: Helping Banks and Thrifts Rebuild Communities." Bank executives from the Gulf Coast region and elsewhere discussed the challenges facing banks and thrifts affected by hurricanes Katrina and Rita and strategies for meeting the needs of local communities.
- Filed "friend of the court" briefs in cases that affirmed federal preemption of state law restriction of national bank activities.
- Issued for comment the interagency notice of proposed rulemaking to implement the Basel Committee on Banking Supervision's new capital accord (Basel II) for large, internationally active banks and an interagency notice of proposed rulemaking on changes to the agencies' risk-based capital standards for market risk.
- Fully implemented supervision by risk for both large and community national banks. Effective supervision tailored examinations to risks presented, addressing safety and soundness issues, and applicable

specialty areas. There were no national bank failures and many of the problem banks at the beginning of the year returned to sound condition. Overall, the national banking system remained in safe and sound condition, with adequate capital and earnings to support future operations.

- Completed the annual Shared National Credit review that covered 7,009 facilities (or 4,833 borrowers) with commitments totaling \$1.9 trillion, in coordination with the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), and the Office of Thrift Supervision (OTS).
- Initiated more than 30 process improvement studies since beginning such studies in FY 2005. Such projects have saved the OCC \$1.3 million, enabled redirection of staff to higher priority needs, allowed the agency to deploy new regulatory requirements more efficiently, and met internal customers' expectations with service delivery.

Strategic Goals

The OCC pursues four strategic goals to achieve its mission:

- A safe and sound national banking system.
- Fair access to financial services and fair treatment of bank customers.
- A flexible legal and regulatory framework that enables the national banking system to provide a full, competitive array of financial services.
- An expert, highly motivated, and diverse workforce that makes effective use of OCC resources.

Here are the major operations of the OCC and the most significant accomplishments that the agency has achieved under each of the four strategic goals during FY 2006.

Strategic Goal I: A safe and sound national banking system

The OCC examines banks to ensure that each national bank operates in a safe and sound manner and complies with applicable laws, rules, and regulations. The agency also analyzes and monitors systemic risk and market trends in the national banking system, the financial services industry, and the economic and regulatory environments.

The agency continuously supervises six categories of institutions—large banks, mid-size banks, community banks, credit card banks, uninsured national trust companies, and federal branches of foreign banks—and develops supervisory strategies based on each bank’s risk profile and condition. Each strategy outlines the examinations and off-site analyses that will be completed during the supervisory cycle. To carry out this objective, the OCC employs nearly 2,000 bank examiners, based in offices throughout the United States.

In FY 2006, the OCC’s supervisory strategies focused on Bank Secrecy Act/Anti-Money Laundering (BSA/AML) compliance, credit quality, risk management practices, audit, internal controls, integrity of financial statements, reliance on noninterest income, and other areas. Supervision also concentrated on outsourcing and vendor activities; interest rate risk models and controls; liquidity and investment portfolio practices and holdings; concentration risk; Basel II implementation; allowance for loan and lease losses methodology and adequacy; and corporate governance. Many of these issues will continue to be areas of emphasis in FY 2007 strategies.

OCC’s National Risk Committee regularly briefs the Comptroller and the Executive Committee on material and emerging risks facing the national banking system, evolving business practices, and financial market issues. Risk assessment and strategies to mitigate identified risks are significant areas of focus for Executive Committee members.

When necessary, the OCC employs a range of enforcement options to help national banks correct identified problems. These options range from advice to informal and formal enforcement actions. Agency officials determine the best course of action in each particular case based on the facts of that case and reasoned judgment about how to address problems most effectively. Informal enforcement

actions include commitment letters and memorandums of understanding, which often are effective in correcting problems. At the next level, formal enforcement actions include specific, formal agreements signed by a bank’s board of directors and the OCC. Cease-and-desist orders are similar to formal agreements and may be enforced through assessment of civil money penalties. Cease-and-desist orders may also be enforced by a request in federal district court for injunctive relief.

Supervisory Guidance

During FY 2006, the OCC issued the following supervisory guidance, policies, and examination handbooks on issues and risks affecting national banks:

- *Nontraditional Mortgage Products.* American home buyers now have more financing options than ever before. They can choose from a menu of mortgage products that offers an array of maturities, interest rates, and payment plans. A rapid increase in home prices in some markets and other forces have led to increased popularity of mortgage products in recent years, allowing borrowers to defer repayment of principal and, sometimes, interest. Although such products, often referred to as nontraditional mortgages, can benefit some consumers, they can pose additional risks that bankers and borrowers must understand. In 2006, the OCC, FRB, FDIC, OTS, and National Credit Union Administration (NCUA) issued Interagency Guidance on Nontraditional Mortgage Products. The guidance instructed banks to offer the consumer loan terms and underwriting standards consistent with prudent lending practices and clear and balanced information about a product’s relative risk and benefits before the product choice is made. To assist financial institutions in implementing the guidance, the agencies published for comment examples of consumer information that reflect the recommended practices. (OCC Bulletins 2006–41, 42, and 43)
- *Guidelines for Identifying and Managing Commercial Real Estate Concentrations.* In recent years a growing number of financial institutions have developed high and increasing concentrations of commercial real estate (CRE) loans on their balance sheets. These

concentrations can make institutions vulnerable to cyclical commercial real estate markets. In response to this development, the OCC, FRB, FDIC, and OTS issued for comment proposed guidance that reinforces the agencies' regulations and guidelines for safe and sound real estate lending programs. The proposal also set forth thresholds for the agencies to use in assessing whether an institution had a CRE concentration and would be expected to employ more robust risk management practices. The agencies are reviewing the comments received on the proposed guidance and expect to issue final guidelines in FY 2007. (OCC Bulletin 2006–2).

- *Risk Management Guidance for Automated Clearing House Activities.* Advances in technology have brought about significant changes in the nature and volume of automated clearing house (ACH) activity. The ACH system is a nationwide electronic payment system used by businesses, governments, and consumers for cost savings and convenience. Common ACH transactions include direct deposit of payrolls and government benefit checks and direct payments of mortgages and loans. Increasingly, the ACH system is also used for nonrecurring consumer transactions for the purchases of goods and services. In light of these developments, the OCC issued guidance to bankers and examiners on the risks that banks may incur when originating, receiving, or processing ACH transactions and on the key components of an effective ACH risk management program. (OCC Bulletin 2006–39)
- *Sound Practices for Managing Complex, Structured Finance Activities.* Financial markets have grown rapidly over the past decade, and innovations in financial instruments have facilitated the structuring of cash flows and allocation of risk among creditors, borrowers, and investors in more efficient ways. Various financial derivatives, asset-backed securities with customized cash flows, and specialized finance conduits that manage pools of assets have become an essential part of U.S. and international capital markets. The OCC, FRB, FDIC, OTS, and the Securities and Exchange Commission (SEC) issued revised guidance for comment to assist institutions in identifying, evaluating, managing, and addressing the risks of complex, structured financial transactions. (OCC Bulletin 2006–22)
- *Guidance and Examination Procedures on Community Reinvestment Act (CRA) Activities.* The OCC, FRB, and FDIC updated examination procedures based on FY 2005 revisions to their CRA regulations. (OCC Bulletins 2006–6, 16, 17, 21, and 29)
- *Advisory on Unsafe and Unsound Limitation of Liability Clauses in External Audit Engagement Letters.* A properly conducted audit provides an independent

and objective view of the reliability of a financial institution's financial statements. Limits on an external auditor's liability could weaken the auditor's objectivity, impartiality, and performance. In response to an increase in the types and frequency of such provisions in financial institutions' external audit engagement letters, the OCC, FRB, FDIC, OTS, and NCUA issued a joint advisory to financial institutions to alert them not to enter into arrangements that include certain limitations that the agencies deem to be unsafe and unsound. (OCC Bulletin 2006–7)

- *Disaster Preparedness.* When the prospect of an avian flu pandemic surfaced in FY 2006, the OCC led the interagency development of an advisory to raise industry awareness of the threat and of the need to plan for possible business disruptions of long durations and wide geographic impact. The OCC and other FFIEC agencies also issued a booklet, "Lessons Learned from Hurricane Katrina: Preparing Your Institution for a Catastrophic Event" to document the knowledge gleaned from the financial industry's responses to the devastation from the hurricane. (OCC Bulletins 2006–12 and 26)
- *Gift Card Disclosures.* In August, the OCC issued guidance to national banks and examiners on issues associated with gift cards. The guidance focused on the need for national banks that issue gift cards to ensure that purchasers and recipients are fully informed of the product's terms and conditions. The OCC noted that gift cards present special challenges because providing disclosures to a purchaser may not suffice to inform the gift card recipient about the product. The OCC guidance urged national bank gift card issuers to provide critical information to recipients as well as purchasers. The OCC also advised national banks to avoid certain practices that could be misleading to consumers, for example, advertising a gift card with "no expiration date" if recurring fees could consume the card balance. (OCC Bulletin 2006–34)

Modernizing Regulatory Risk-Based Capital Standards

Bank capital serves as a buffer against anticipated and unexpected losses. Risk-based capital standards are designed so that if banks take on greater risk, they must hold more capital. The current risk-based capital framework, implemented in 1989, relies on a very crude distinction between risks. The OCC is working with the FRB, FDIC, and OTS to ensure that regulatory capital requirements better reflect the risks facing the banking industry.

The agencies' capital reform efforts for the largest and most complex banks are focused on the U.S. implementation

of the Basel Committee on Banking Supervision’s revised capital accord, known as Basel II. The Basel II framework is designed to provide a more risk-sensitive capital process that incorporates information from advanced risk management and measurement systems used by large banks. In September, the agencies issued for comment the interagency notice of proposed rulemaking to implement Basel II, an interagency notice of proposed rulemaking on changes to the risk-based capital standards for market risk, and proposed supervisory reporting templates to collect key data required under the proposed Basel II framework and revised market risk standards. The agencies also continued to work on supervisory guidance that outlines those portions of the risk measurement and management systems that banks subject to the Basel II framework would need to meet.

The Basel II framework is not appropriate for all banks in the United States. Many of those banks need meaningful, but simpler, improvements in their risk-based capital requirements to align capital more closely with risk. To address this need, the agencies issued an advance notice of proposed rulemaking in October 2005 that sought comment on possible changes to improve the agencies’ current capital rules for non-Basel II banks. The agencies have reviewed those comments and are proposing modifications to their rules. Publication of the proposed rule, known as Basel 1A, is anticipated in early 2007.

Bank Secrecy Act/Anti-Money Laundering

Early in FY 2006, the OCC launched a comprehensive set of initiatives to ensure that its BSA/AML supervision is not only effective, but also measured and fair. “The post-9/11 world is profoundly different in many ways from what it used to be, and that is certainly true in the BSA area,” Comptroller Dugan said in a speech in November 2005. “Whether we like it or not, the traditional concerns of BSA—disrupting the money flow of the drug trade and other illicit activity—have been joined with concerns about combating the financing of terrorism.”

Highlights include:

- Published the FFIEC’s revised *BSA/AML Examination Manual* in July 2006. The FFIEC, assisted by the Financial Crimes Enforcement Network (FinCEN), reorganized and updated the manual to reflect recent changes to the BSA/AML regulations. The manual also offers updated supervisory guidance for examiners when conducting risk-focused compliance examinations related to BSA/AML and the Office of Foreign Assets Control (OFAC). (OCC Bulletin 2006–33)

- Completed BSA/USA PATRIOT Act (USPA) examinations for mid-size banks.
- Completed BSA/USPA compliance reviews for 90 percent of non-high-risk community banks. The agency completed these reviews for all large banks and high-risk community banks in FY 2005.
- Developed a national pool of BSA/AML examiners, including 20 OCC employees who earned Certified Anti-Money Laundering Specialist credentials as of June 2006.
- Delivered BSA/AML training to all examiners-in-charge in Large Bank Supervision and most compliance specialists.
- Doubled the number of classes in the OCC’s updated BSA/AML internal training program for examiners. During these eight classes in FY 2006, the agency trained 187 examiners to recognize potential money laundering risks, understand high-risk products and services, and assess the adequacy of a bank’s policies and procedures.
- Completed BSA/AML training for all examiners in the Mid-Size/Community Bank Supervision program and all examiners performing BSA/AML work in the Large Bank Supervision program who had not completed such training in the past two years.
- Served as a member of the interagency working group that published the *U.S. Money Laundering Threat Assessment*, which is the first government-wide analysis of money laundering in the United States.
- Served as a member of the interagency working group that provided significant assistance to the Financial Action Task Force (FATF) in its Mutual Evaluation of the Anti-Money Laundering and Combating the Financing of Terrorism Regime of the United States.

BSA/AML Enforcement

OCC is committed to ensuring that banks have adequate and effective BSA/AML programs in place. The agency is also committed to balanced supervisory discretion by taking supervisory actions fairly and consistently.

The OCC investigates national banks that fail to meet BSA/AML requirements and brings enforcement actions against them. Banks must implement adequate BSA compliance programs in accordance with OCC regulations, establish procedures to identify and monitor high-risk accounts, and report suspicious transactions. The OCC coordinates with other regulators and law enforcement authorities to ensure such compliance and detect, track, and prevent attempts by terrorists and other criminals to use the national banking system for their activities.

The OCC brought enforcement actions against several banks for inadequate BSA/AML compliance programs, ordering them to develop and implement internal controls, conduct audits, designate BSA compliance officers, and conduct employee training programs. For example:

- A federal branch agreed to the OCC assessment of a \$3 million civil money penalty (CMP) for deficiencies in its internal controls, particularly in the area of BSA/AML compliance.
- The OCC issued a cease-and-desist order by consent against a bank for failing to have an adequate BSA compliance program and for failing to take appropriate action to determine the risk level of its customer base.
- The OCC issued a cease-and-desist order by consent against a bank with a large number of high-risk accounts for failing to implement an adequate system of internal controls to identify and monitor those accounts, and for failing to implement adequate testing of its BSA/AML compliance.
- The OCC issued a cease-and-desist order by consent against a bank for failing to have an adequate BSA compliance program. The order required the bank to adhere to a strategic plan, which would be terminated in the event of the sale, merger, or liquidation of the bank.
- The OCC issued a cease-and-desist order by consent against a bank for an inadequate BSA/AML program and for failing on multiple occasions to file suspicious activity reports. In addition, the bank's former President and Chief Executive Officer (CEO) agreed to the OCC's prohibition and cease-and-desist orders, and a \$100,000 CMP for allegedly issuing and concealing millions of dollars' worth of unsafe or unsound loan guarantees. The cease-and-desist order required the former President to make restitution of \$407,000 to the bank, to reimburse the bank \$100,000 for expenses, and to indemnify the bank for half of any judgments against it related to the worthless guarantees.
- The OCC issued a cease-and-desist order by consent against a bank for failure to correct previously identified deficiencies in its BSA/AML program.
- The OCC issued a cease-and-desist order by consent against a federal branch for deficiencies in its BSA/AML program, including inadequate internal controls over its wire pouch activities and demand deposits, and lack of independent testing. The bank had previously been subject to formal enforcement action for BSA/AML deficiencies.

Enforcement

In addition to BSA/AML enforcement, the OCC takes other formal and informal enforcement actions to support prompt detection and mitigation of problems before they affect a bank's viability, and to ensure orderly resolution of troubled banks. These actions address violations of laws, rules, and regulations, unsafe or unsound banking practices, and noncompliance with policies or procedures by national banks, their insiders, and other affiliated parties.

During FY 2006, formal enforcement actions included temporary cease-and-desist orders, final cease-and-desist orders, removal or prohibition orders, CMPs, and formal agreements. The agency also took informal actions, including supervisory letters, memorandums of understanding, and letters of reprimand. In addition, the OCC's Fast Track Enforcement Program helped ensure that bank insiders and employees who committed criminal acts involving banks, but who were not being criminally prosecuted, were banned from working in the banking system. Table 1 summarizes enforcement actions taken in FY 2006.

Enforcement Actions against Banks and Bank Insiders

The OCC brought these actions to detect and mitigate problems at banks that could affect their viability. The agency also took action against bank insiders and other institution-affiliated parties when practices, conduct, or breaches caused, or could have caused, harm to a bank, or resulted in financial gain or other benefit for the insider.

- The OCC issued a prohibition order by consent and assessed a \$100,000 CMP against a former bank President accused of causing the bank to make unauthorized payments for personal expenses totaling at least \$388,000 for himself and his family. The former President made restitution of the unauthorized payments before the OCC's action.
- The OCC issued a prohibition order by consent against a former bank President accused of causing the bank to make loans significantly exceeding its legal lending limit (which led to closure of the bank), creating false bank records, and engaging in a fraudulent wire transaction. The OCC's supervisory office also assisted the Assistant U.S. Attorney for the Western District of Wisconsin in criminal proceedings. The judge in that case ordered the former bank President to serve nine years in prison and pay \$13.4 million in restitution to the bank.
- The OCC issued a prohibition order by consent and assessed a \$25,000 CMP against a former bank Senior Vice President accused of embezzling about \$700,000, which he repaid to the bank in full, plus \$21,500 in related bank costs, before the OCC's action.

- Following the issuance of a cease-and-desist order against a bank for violations of law and regulation and for problems in its lending program, the bank’s Chairman and CEO agreed to the OCC’s assessment of a \$5,000 CMP against him for alleged violations of laws governing legal lending limits, insider loans, and affiliate transactions. The OCC issued a second cease-and-desist order by consent and assessed a \$20,000 CMP against the bank for failing to maintain adequate and accurate records, and for filing inaccurate reports on the bank’s condition.
- The OCC issued prohibition orders by consent and assessed CMPs of \$5,000 each against two former senior bank officers accused of embezzling bank funds and for assisting other executive officers’ misconduct. The OCC also assessed CMPs ranging from \$7,500 to \$10,000 against four bank directors for inadequate oversight of the bank’s affairs and for the bank’s failure to comply with a 2002 OCC formal agreement. The bank has been purchased by another financial institution. Further enforcement actions are pending.

Actions to Enforce

Federal Standards for Mortgage Lending

A mortgage lending subsidiary of a national bank engaged in a pattern of submitting loans to the U.S. Department of Housing and Urban Development (HUD) for Federal Housing Administration insurance without proper review and certification by appropriate underwriters, as required by HUD.

The subsidiary agreed to pay approximately \$6.8 million to HUD in restitution, agreed not to submit insurance claims on certain FHA loans, and was assessed a \$6.25 million CMP.

Enforcement Investigations and the Right to Financial Privacy Act

The U.S. District Court for the Northern District of Texas ruled in favor of the OCC in a case involving enforcement of an OCC subpoena challenged under the Right to Financial Privacy Act (RFPA). The court found that the OCC’s investigation of the plaintiff (a bank officer) for nonpayment of wire transfer fees was conducted pursuant to the OCC’s statutory authority and necessarily qualified as a “legitimate law enforcement inquiry” for RFPA purposes. The OCC was thereby allowed access to the bank officer’s personal financial records held at a non-national bank, the court said. The court rejected the bank officer’s argument that the OCC must cite a specific violation of law to comply with RFPA requirements. *Abrams v. OCC*, No. 3:05–CV–2242–L (N.D. Tex. August 3, 2006)

Actions Involving Flood Insurance

The OCC continued to review the compliance of national banks with federal regulations requiring flood insurance for certain properties located in special flood hazard areas that secure loans by national banks. The OCC assessed CMPs totaling \$32,900 against six banks for violating flood insurance requirements in FY 2006.

Table 1: Enforcement Actions, FY 2006

Type of enforcement action	FY 2006	
	Against banks	Against institution-affiliated parties
Cease-and-desist orders	13	9
Temporary cease-and-desist orders	2	0
12 USC 1818 civil money penalties	6	41
12 USC 1818 civil money penalties amount assessed	\$9,495,000	\$693,500
Flood insurance civil money penalties	6	0
Flood insurance civil money penalties amount assessed	\$ 32,900	0
Restitution orders	1	12
Amount of restitution ordered	\$6,800,000	\$545,604
Formal agreements	27	0
Memorandums of understanding	16	0
Commitment letters	7	0
Suspension orders	0	0
Letters of reprimand	0	41
12 USC 1818 removal/prohibition orders	0	42
12 USC 1829 prohibitions	0	232
Total enforcement actions	78	377

Hurricane Katrina: OCC Helps Banks and Customers Rebound

At 3:00 a.m. on the morning before Hurricane Katrina made landfall along the Louisiana and Mississippi coasts, a local bank executive sent an e-mail to his examiner-in-charge. He and his employees were “up to our ears in alligators,” he said, and they had begun executing contingency plans. The region had been through hurricanes before, but this one was going to be different.

The unprecedented magnitude and duration of Hurricane Katrina caused major losses that exceeded the scope of disaster response plans. A second hit from Hurricane Rita three weeks later created an unimaginable situation for area banks, examination teams, and their families.

Many banks had to evacuate twice and execute two separate contingency plans. More than 600 employees of Whitney Bank evacuated from New Orleans to Houston only to move again to avoid Rita’s wrath. Hibernia Bank, now part of Capital One, evacuated more than 1,400 employees. OCC employees and their families also fled. Many lost much; some lost everything.

In the days and months after the storms, the financial industry and its regulators showed strength and resilience. Alongside bankers and other federal regulators, OCC employees supported citizens, communities, and banks throughout the region.

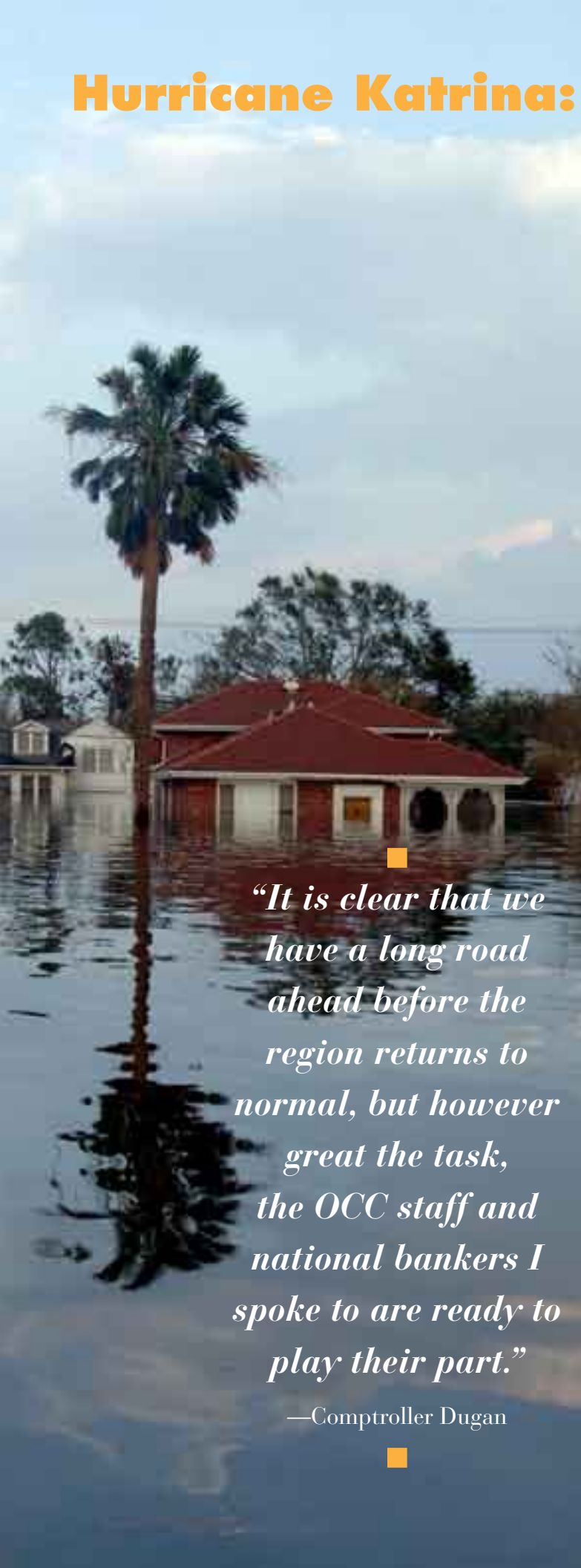
“I’m very proud of the way our banks and our team members reacted,” Comptroller of the Currency John C. Dugan said. “OCC and the other federal and state bank regulators have often been held up as examples of government at its best.”

As chairman of the FFIEC, a group of federal banking regulators, the Comptroller played a central role in shaping interagency responses to the disaster.

Reaching Customers and Taking Care of People

Although realistic and well-rehearsed plans for recovery and continuity can help organizations to manage crises, Katrina showed that institutions must improvise, adapt, and overcome obstacles as events unfold. After Katrina, financial institutions adapted procedures to facilitate check cashing for non-customers, shared limited workspace, and worked cooperatively in new ways to meet customer and community needs.

Immediately after the storm, the OCC publicly encouraged national banks to consider helping affected customers by giving them extra time to make loan payments, restructuring their debts, and easing credit terms for new loans.



“It is clear that we have a long road ahead before the region returns to normal, but however great the task, the OCC staff and national bankers I spoke to are ready to play their part.”

—Comptroller Dugan

OCC examiners also acted as facilitators between their banks and other federal agencies. For example, when the flow of mail slowed to a trickle after the storms, the OCC set up meetings between bankers and representatives of the U.S. Postal Service. Over the weeks, the decline in calls to federal regulators signaled progress.

As banks began to reopen offices and resume operations, reconstituting bank staffs presented significant challenges. In response to these challenges, banks moved their back-office operations out of storm-damaged areas, changed operating hours to accommodate employees who were putting their lives back together, and offered pay increases to entice new employees, as well as encourage former employees to return. In one large bank, 90 percent of the loan processing staff had not come back to work a year after the storms. While some employees could return sooner than others, commutes were difficult for months.

Re-establishing communication with customers also presented a significant challenge. More than a million people from the Gulf Coast were displaced and spread across the nation, making it nearly impossible for lenders to locate many customers. While regulators encouraged lenders to work with storm victims, lenders could not assess or meet customers' needs without direct contact.

To help solve this problem, the FFIEC sponsored a public service advertising campaign reaching out to encourage hurricane victims to contact their lenders. The radio and print spots began in mid-January and reached an audience of more than 4.7 million people in fewer than 90 days.

The FFIEC later collected valuable hurricane-related lessons from regulators and industry professionals, and documented them in "Lessons Learned from Katrina: Preparing Your Institution for a Catastrophic Event."

The OCC to Employees: "Whatever you need"

The OCC also responded to the needs of its employees and their families who were directly affected by the storm. Like other hurricane victims, OCC families were uprooted by the storms, their homes and lifestyles destroyed. The agency immediately put employees displaced by the storm on travel



status, providing them with lodging, a daily stipend, access to cash advances, and other benefits. On a personal level, employees took up collections and made donations to support one another.

The agency explored and authorized alternative work arrangements to help employees return to work from new locations. The OCC also provided equipment, such as wireless handheld devices and laptop computers, to help displaced employees reconnect.

"Getting back to work was important to all of us, so we could return to some semblance of normalcy," said Mary Reeves, an OCC national bank examiner displaced by the storms. "I'll never forget what the agency did for us: 'Whatever you need,' they said."

Enabling a Rebuilt Gulf Coast

A year after Katrina, rebuilding the Gulf Coast has only begun. Banks and other financial institutions play critical roles in that effort. Early in the process, Comptroller Dugan

took a direct and personal interest in coordinating activities to support the region.

“Nothing can prepare you for a drive that takes you past mile after mile of uprooted trees, abandoned cars, and concrete foundations that mark the spots where homes once stood,” the Comptroller said after his first visit to the region. “It is clear that we have a long road ahead before the region returns to normal, but however great the task, the OCC staff and national bankers I spoke to are ready to play their part.”



As FFIEC chairman, Comptroller Dugan immediately called for a special interagency working group to coordinate and monitor activities supporting the region. This coordination helped the FFIEC provide broad and flexible guidance giving financial institutions more leeway to meet the needs of their communities.

In October 2005, regulators announced exceptions to regulatory requirements for appraisals in areas affected by hurricanes Katrina and Rita. Waiving the requirements for appraisals allowed speedier granting of loans for recovery from the disasters. In that same month, the OCC announced a partnership with Operation HOPE, Inc., to provide bank customers with information about accounts, lost financial records, ATM cards, direct deposits, how to contact a national bank branch, and other matters.

In December 2005, the agency expanded its presence by establishing an additional OCC Community Affairs Officer in

the region to work with national banks, community groups, government organizations, and others who are rebuilding the area.

The federal agencies issued guidance in February 2006 to allow financial institutions to receive Community Reinvestment Act credit for activities that revitalize and stabilize designated disaster areas even though the lender may be based outside that area. The guidance also stated that national banks could receive positive consideration

for activities benefiting people who had been displaced by the hurricanes and perhaps had relocated to other states.

In March 2006, regulators hosted a forum, “The Future of Banking on the Gulf Coast: Helping Banks and Thrifts Rebuild Communities.” This forum brought community groups, the federal regulatory agency leaders,

and lenders together to discuss the challenges facing communities, banks, and thrifts operating in areas affected by the hurricanes.

OCC examiners in New Orleans reported additional signs of progress this past summer. On August 7, the Capital One building began operating without any external generator power. From the air, observers could see that the blue dots of tarped roofs were slowly disappearing. Shops were opening on streets that were once underwater, and the first “Lucky Dog” hot dog carts returned to Jackson Square.

Hurricane Katrina was only one of the natural disasters that hit the country in 2005. Its scope and impact tested the resolve of federal regulators and the financial services industry. OCC employees and bankers passed that test and showed their mettle, finding creative and meaningful ways to meet customers’ needs as they restored financial services in the flood-torn region.

Bank Performance

Here are some of the ways the OCC analyzes national bank performance and responds to bank inquiries and appeals of agency decisions and actions.

National Banks with Composite CAMELS

Rating of 1 or 2

Bank regulatory agencies use a composite rating known as CAMELS (Capital adequacy, Asset quality, Management, Earnings, Liquidity, and Sensitivity to market risk) to determine the overall condition of banks. The rating, which provides a framework for evaluating significant financial, operational and compliance factors, has a scale of 1 through 5, in which 1 is best. CAMELS ratings are assigned at the completion of every supervisory cycle or when a significant event leads to a change in CAMELS components. In FY 2006, 95 percent of national banks received a CAMELS rating of either 1 or 2, showing the overall strength of the national banking system and the U.S. economy.

Rehabilitated National Banks

Although problem banks sometimes reach a point beyond which rehabilitation is no longer feasible, OCC's early identification of, and intervention with, problem banks can lead to their successful rehabilitation. The OCC proposes corrective actions to improve operations at problem banks. As a result, 46 percent of banks with composite CAMELS ratings of 3, 4, or 5 in FY 2005 improved their ratings to either 1 or 2 in FY 2006. This is an improvement from 44 percent in FY 2005 and 40 percent in FY 2004.

Shared National Credit Modernization

The Shared National Credit (SNC) program is a collaborative review and assessment by the OCC, FRB, FDIC, and OTS of the largest and most complex loans that are shared by multiple financial institutions. The 2006 SNC review, which covered 7,009 loan facilities with commitments totaling \$1.9 trillion, found that overall SNC credit quality was good. But

the review noted a small increase in the level of adversely rated credits. The bulk of this increase was associated with credits held by nonbank entities, while problem loans at regulated institutions—most notably those with insured deposits—grew slightly. The review also found a continued easing of credit underwriting standards in the syndicated market in general, particularly in non-investment-grade, or leveraged-credit, facilities.

In FY 2006, the OCC assumed the lead of an interagency modernization initiative to standardize and expand the data collection process to improve the effectiveness of reviews. The initiative will continue in FY 2007.

Well-Capitalized National Banks

The Federal Deposit Insurance Act 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. At the fiscal year-end, 99 percent of national banks were categorized as well capitalized. National banks' capital has remained at this high level for the past several years.

National Bank Appeals

The national bank appeals process is an avenue for the OCC and national banks to address disagreements arising from the supervisory process that cannot be resolved through informal discussions. National banks may appeal OCC decisions and actions to the Office of the Ombudsman. With the consent of the Comptroller, the Ombudsman can stay a pending decision or action until the appeal is resolved. In FY 2006, the Ombudsman's office received about 90 substantive appeal-related inquiries, informal appeals, and formal appeals. Separate from the appeals process, banks may provide confidential feedback at the end of each supervisory cycle on the OCC supervisory process by completing an examination questionnaire administered by the Ombudsman's office.

Table 2: Performance Measures, FY 2006

Performance Measures	Target	Actual
Percentage of national banks with composite CAMELS rating of 1 or 2	90%	95%
Rehabilitated problem national banks as a percentage of the problem national banks in FY 2005	40%	46%
Percentage of national banks that are categorized as well capitalized	95%	99%

Quantitative Risk Models Provide New Insights for Bank Supervision

An explosion of computing power is making a major impact on banking by putting abstract economic models onto personal computers and into banks of all sizes.

Computer modeling to perform complex risk analysis has grown rapidly from small beginnings a dozen years ago to a central role in the national banking system.

Even smaller banks are now using computer models to manage areas of business, such as loan underwriting, credit risk, and asset-liability management. In large banks, the modeling that began in derivatives eventually spread to all lines of business.

To gauge the effectiveness of increasingly pervasive modeling, the OCC employs quantitative modeling experts, who work with members of examination teams in large banks.

What began as a two-person shop in 1994 has grown into a 30-person Risk Analysis Division (RAD), working hand-in-glove with examiners to assess the safety and soundness of national banks' quality controls for computer risk analysis modeling and to assess national banks' fair lending performance.


These experts not only help examiners evaluate the modeling activities of banks, but offer expert advice on best practices in quantitative modeling. The OCC modeling experts have also been busy assessing the quantitative risk systems that would provide inputs for banks to use under the proposed Basel II capital rule.

The agency has sponsored two conferences on computer modeling. The first, on how to build credit rating-and-scoring models, featured experts from the industry and the OCC.

At a follow-up conference in February 2006, OCC experts provided guidance on how to validate those models and develop quality controls to make sure they work as intended. Interest in the conference ran high and organizers had to limit the number of attendees to 400.

"If a bank relies on models in ways that are integral to its business processes, then the soundness of the organization is likely to depend on the validity of those models," Comptroller Dugan told the audience of bankers and officials of other regulatory agencies during the conference luncheon

speech. "Models and validation become integral to the way we supervise the bank, making model validation very much our concern. The more central the uses of models are to a bank's business, the more central this aspect becomes to our assessment of that bank's soundness."



The more central the uses of models are to a bank's business, the more central this aspect becomes to our assessment of that bank's soundness.

Although the OCC has supervised federally chartered banks since the creation of the national banking system more than 140 years ago, its supervision is anything but old-fashioned. The RAD team is only one example of how the world-class expertise of the OCC workforce positions the agency well for its next century of challenges.

Partnership and Outreach

The OCC maintains ties to other financial regulators and the banking industry.

Industry Outreach

Industry outreach programs are key vehicles for the Comptroller and other senior OCC officials to exchange information with bank executives and trade association representatives. The Comptroller is a frequent speaker at major industry conferences and events.

The OCC offers programs and conferences to provide information to bankers and bank directors on emerging issues and regulatory requirements. Periodic seminars are offered on the Web and by telephone so bankers can hear agency experts discuss their experiences and regulatory expectations, and can directly ask the experts questions.

The OCC, other federal banking agencies, FinCEN, and OFAC hosted four well-attended conference calls for examiners and bankers about the revised FFIEC *BSA/AML Examination Manual*. More than 10,000 callers listened and participated in an extensive question-and-answer session.

Another 2006 highlight was a program covering “The New CRA Perspective for You and Your Bank.” Approximately 2,000 listeners participated from more than 400 sites.

The OCC sponsors programs each year to foster dialogue between the Comptroller and groups of chief executive officers of national banks. Discussion focuses on the nuts and bolts of OCC supervision, economic and community development trends, and broad issues of public policy. In 2006, the agency hosted about 240 CEOs at programs in Tampa, Dallas, Chicago, Los Angeles, and New York City.

The OCC also conducted 15 workshops for about 750 community bank directors that addressed topics such as credit risk, compliance risk, and the OCC’s risk assessment process.

Working with Other Financial Regulators

The dynamic and global nature of today’s financial services industry presents issues that cut across regulatory and legal boundaries. Banks, securities, and insurance firms participate actively in the credit and capital markets and are often counterparties to each other’s transactions; electronic payment systems span the globe; and national banks have offices and customers in countries throughout the world.

Primarily through the FFIEC, the OCC works with the other federal financial agencies (FRB, FDIC, OTS, and NCUA) to coordinate supervisory policies, regulations, regulatory reporting requirements, and examiner training. The agencies also coordinate to supervise institutions that are subject to multiple regulators and perform joint examinations when necessary. Joint supervisory programs include the FFIEC’s examination program for multi-regional data processing servicers and the SNC program.

The OCC also works with the SEC on issues such as securities, brokerage, accounting, and disclosure, and with the Federal Trade Commission (FTC) on consumer protection and privacy. In particular the OCC worked with the SEC in developing its “Reg B” rule to define when bank securities activities will be regulated as brokerage. The OCC has agreements with 49 state insurance departments and the District of Columbia to share information about insurance-related supervision and consumer complaints.

The OCC is a member of the administration’s Financial and Banking Infrastructure Information Committee (FBIIC) and works with FBIIC, the Department of Homeland Security, and other agencies to combat money laundering and terrorist financing, and to prepare the nation’s financial sector for catastrophic events.

The OCC is a member of the National Interagency Bank Fraud Working Group and the Bank Secrecy Act Advisory Group to combat fraud and money laundering in the financial services industry. These groups include representatives of the Department of Justice, the FBI, other law enforcement agencies, the Treasury Department, FinCEN, and the federal banking agencies.

The globalization of the financial marketplace has accentuated the need for OCC to work with financial supervisors around the world. This coordination takes place through formal supervisory groups, such as the Basel Committee on Banking Supervision, the Financial Action Task Force, and the Joint Forum of banking, securities, and insurance regulators. It also occurs through direct meetings and agreements with foreign bank regulators. In addition, the OCC provides technical assistance and classroom training for foreign supervisors across the globe to strengthen their domestic supervisory programs.

As noted throughout this report, the OCC continued to work with other regulators during the fiscal year to respond to emerging risks and issues facing the industry.

The Globalization of Banking

In Cairo, OCC officials joined bankers and bank supervisors from North Africa and the Middle East to discuss anti-money laundering issues. In Washington, Russian bank supervisors met with OCC officials about recruiting, commissioning, and retaining bank examiners.

In Turkey, OCC officials met with Turkish supervisors to establish a program for Turkish examiners to attend OCC conferences to enhance their skills and strengthen the collaborative relationship on banking supervisory and analytical issues.

Banking is becoming an increasingly global enterprise, especially for the largest national banks, and as banking has become more international, so has the OCC.

“The increasing global integration of economic and financial markets and ever-expanding breadth and complexity of operations of banks heighten the importance of regular and effective communication with our international counterparts,” said Nancy Wentzler, Deputy Comptroller for Global Banking.

OCC has developed excellent relationships over the years with many international bank supervisors. For example, the OCC has a valuable working relationship with the China Banking Regulatory Commission, sharing analytical tools, early warning techniques, supervisory procedures for complex products, methods to assess and provide better incentives for management and corporate governance, techniques for improved data structure and management, and programs for general employee training and performance evaluation.

The OCC also collaborates regularly with the Reserve Bank of India to exchange ideas and supervisory information. More recently, the OCC actively participated

in shaping the annual banking supervisory program for the South East Asian Central Banks (SEACEN) and held seminars on stress testing techniques for this group and for bank supervisors in Latin America.

Under the agency’s Foreign Technical Assistance program, the OCC establishes, builds, and maintains relationships with foreign supervisory organizations to improve bank supervision around the world.

The program increases the international expertise of OCC employees, provides a platform for OCC to present its supervisory philosophy and views to the international supervisory community, and enhances the global reputation of the agency.

“We have a good reputation around the world for supervising banks,” noted Jeffrey A. Brown, Senior Deputy Comptroller for International and Economic Affairs.

In FY 2006, OCC examiners taught one-week schools in Egypt on problem bank supervision; in Colombia, Kuwait, and Egypt on evaluating bank management; in Turkey on credit risk management; and in Malaysia on economic stress testing.

The OCC also hosted interns last year from Japan, Korea, Singapore, and China. Turkey and Lebanon each sent a small team to join OCC examiners on bank examinations.

International Exchanges

The Foreign Technical Assistance program is just one example of the OCC’s participation in the international financial arena.

As banking has become more international, so has the OCC.

OCC officials also meet with foreign supervisors about bank activities in foreign countries or other issues of supervisory concern. In 2006, OCC officials met with banking supervisors from India, China, Brazil, Russia, and Canada to discuss anti-money laundering, Basel II capital requirements, regulatory changes, and other issues.

These international exchanges help OCC officials measure the “country risks” that internationally active national banks encounter doing business overseas.

International collaboration on the Basel II capital accord has provided an important forum for banking supervisors from across the world to interact, exchange information about common issues, lay groundwork for information-sharing agreements, and set principles for cross-border supervision.

These information exchanges are also more important than ever to combat the global threat from terrorism by blocking the country-to-country flow of financing for terrorist enterprises. A bank can no longer be sure of avoiding supervisory scrutiny by moving assets from one nation to another.

As the banking world shrinks and international contacts among banking supervisors become commonplace, banking regulation around the globe is trending toward greater similarity. For example, supervisory authorities around the world are following the lead of U.S. bank regulators by increasingly emphasizing supervision-by-risk policies and procedures.

Although the U.S. national banking industry is enjoying excellent health, the Comptroller likes to point out that the OCC’s job is to “see around corners,” to look beyond the good times for signs of trouble and spot problems early before they can grow. As OCC officials develop and refine contingency plans for the possibility of a confluence of downward economic trends, they must now look not only in this country, but also beyond U.S. shores to a global system of banking.

Strategic Goal II: Fair access to financial services and fair treatment of bank customers

The OCC has a fundamental responsibility to ensure compliance with fair lending laws, the Community Reinvestment Act, and other consumer laws and regulations.

The OCC also strongly supports the community development efforts of national banks. Recognizing the importance of bank investment in America's communities, the Comptroller successfully urged Congress to increase the authority of banks and thrifts to invest in projects that provide housing, community services, and jobs for low- and moderate-income communities and families across the nation.

The Comptroller pressed for adoption of this provision in meetings with lawmakers, banker groups, and community organizations. He also visited community development projects to draw attention to the benefits of the program. These investments have a solid record of profitability and have fostered \$16 billion in such investments by national banks in all 50 states in the last decade.

The agency publishes periodic *Community Development Insights* papers on products, services, and initiatives related to community development and consumer banking.

The OCC continued its work with the other federal banking agencies in FY 2006 to improve privacy notices that banks are required to send to their customers. Simple, easy-to-understand language—not tangled legalese in fine print—is the goal. In March, the agencies released “Evolution of a Prototype Financial Privacy Notice,” a report summarizing research on making these notices easier for consumers to understand. The agencies have also commissioned the use of focus groups and one-on-one interviews with consumers to test samples of such notices.

During FY 2006, the OCC and other federal banking agencies not only issued examination procedures for assessing how banks complied with 2005 revisions to Community Reinvestment Act regulations, but also:

- Issued interagency questions and answers about the revisions.

- Updated lists of distressed or underserved non-metropolitan, middle-income geographic areas where bank revitalization or stabilization activities would receive CRA consideration.
- Updated median family income levels used in CRA performance evaluations.

Federal banking agencies joined HUD in releasing updated answers to questions regarding 2005 home loan data to be disclosed under the Home Mortgage Disclosure Act. The OCC also updated its consumer compliance booklet, “Fair Lending Examination Procedures.”

Identity Theft and Information Integrity

Identity theft and the accuracy of consumer information reported to, and used by, credit bureaus also were major concerns to consumers, bankers, and regulators. In July 2006, the OCC, other FFIEC-member agencies, and the FTC issued proposed rules to require financial institutions and creditors to develop and implement identity theft prevention programs. The proposal included guidelines about patterns, practices, and activities that signal risks of identity theft. The agencies also published for comment proposed procedures to enhance the accuracy and integrity of information furnished to consumer reporting agencies.

The security of banks' systems and operations is essential to maintaining the privacy of customer information. In FY 2006, the FFIEC issued a revised “Information Security Booklet” that describes how a bank should protect the systems and facilities that process and maintain information. The revisions include updated information on authentication, monitoring programs, and software trustworthiness.

The OCC issued prohibition orders and, in several cases, ordered restitution or assessed CMPs against bank employees in six cases. These cases involved losses to bank customers because of identity theft committed by bank employees, or by third parties who received confidential customer information from bank employees.

Consumer Compliance Ratings

To ensure fair access to financial services and fair treatment of bank customers, the OCC evaluates banks' compliance with consumer laws and regulations. Bank regulatory agencies use the Uniform Interagency Consumer Compliance Rating System to provide a general framework for assimilating and evaluating significant consumer compliance factors at a bank. Each bank receives a consumer compliance rating based on an evaluation of its compliance with consumer protection and civil rights statutes and regulations, and the adequacy of its systems for continued compliance. Ratings are on a scale of 1 through 5, in increasing order of supervisory concern. National banks continued to show strong compliance in FY 2006 with consumer protection regulations, with 94 percent earning a consumer compliance rating of either 1 or 2.

Fair Treatment of Bank Customers

The OCC has a long history of responding aggressively in cases when it finds business practices that are predatory, abusive, unfair, or deceptive.

The OCC entered into a formal agreement in November 2005 with a national bank and its mortgage lending subsidiary requiring the bank to establish a \$14 million fund to reimburse consumers harmed by the lack of appropriate controls in the bank's mortgage lending operations. Consumers entitled to restitution had: (1) paid origination fees and/or interest rates substantially different from those indicated on good faith estimates; (2) not had their creditworthiness adequately considered; (3) held subsidized loans that were refinanced with higher-cost loans, which did not appear to provide the consumers with a tangible benefit; or (4) applied for mortgage loans and were denied after receiving "preapproved" direct mail solicitations.

The agreement also required the bank to:

- Ensure that its advertising materials adequately disclosed limitations or conditions on various products and complied with the Truth in Lending Act.
- Develop a detailed consumer program for compliance with the FTC Act, the Real Estate Settlement Procedures Act, the OCC's Part 30 Guidelines, and the OCC's other issuances regarding abusive, predatory, unfair, or deceptive practices.
- Provide disclosures to consumers explaining certain product options.

- Adopt a compliance audit program.
- Develop a staffing plan to ensure a sufficient number of adequately trained personnel to support compliance and audit functions.

Customer Assistance Group

The OCC Customer Assistance Group (CAG) in Houston assists consumers who have questions or complaints about national banks or their operating subsidiaries. CAG refers complaints to the agency's law department if they (1) allege or raise concerns about possible unfair or deceptive practices, predatory lending practices, or fair lending law violations or other discriminatory practices; and (2) involve possible violations of consumer protection laws, or inconsistencies with OCC regulations or guidance.

CAG published a brochure in Spanish to assist Spanish-speaking bank customers.

Upon request from Congress, the Government Accountability Office (GAO) conducted an assessment of CAG in FY 2006. The GAO subsequently released a favorable report, noting that the OCC handles more complaints than any other federal banking agency.

The report also noted that OCC's bank examiners use consumer complaint information collected by CAG to plan or adjust examinations. CAG employees and OCC examiners regularly discuss specific complaints and complaint numbers for individual banks, and they coordinate in communicating consumer-related issues to bank officials.

"We are very proud of the work of our Customer Assistance Group," Comptroller Dugan said after the report's release. "Not only does the CAG assist customers with questions or complaints, but it helps national banks improve their customer service and it provides invaluable feedback that helps our examiners focus on problem areas."

The OCC is implementing three improvements recommended by the report: that the OCC measure customer satisfaction; revise the way it measures and reports on timeliness in resolving customer complaints; and find better ways to inform the public, state officials, and others about the OCC's role in handling consumer questions and complaints.

CAG Focuses on Quality Service for Consumers

Over the last 12 months, nearly 70,000 telephone conversations began the same way: “Hello, thank you for calling the Office of the Comptroller of the Currency’s Customer Assistance Group. How can I help you today?” At one end of the phone line, a

a 20-year OCC veteran with seven years experience in customer assistance. “It’s what I was called to do in this life.”

Added OCC Ombudsman Samuel P. Golden, whose office operates the



customer had turned to the OCC for help. On the other end, a member of OCC’s Customer Assistance Group responded.

While the volume of calls, e-mails, and written inquiries is large, the specialists who staff CAG’s Houston facility never seem to tire of the work.

Serving consumers is “just where I get my kicks,” said Rayburn Johnson,

Thank you for the prompt attention your agency gave the matter. In addition not only was my issue taken seriously by your agency, but you [also] kept me informed of the progress.

—Daniel M.

Thank you very much for getting involved in my case about the bank unfairly raising my credit card interest rate. They have now corrected the problem and there is no question it is only because your organization became involved. Thank you again, you are so important to the “little guy” in these situations.

—John D.

CAG in Houston: “Customer service is not difficult if your heart is in it.”

Callers’ emotions vary, but the quality of service from CAG team members remains constant. “It’s about trying to help as much as you can,” said Vonda King, a Customer Assistance Specialist.

“Lots of times, folks just want to tell you the whole story and that’s part of the process,” Mr. Johnson added.

During the year, the OCC improved CAG service by expanding its hours. Under “Project Daylight,” CAG now operates from 9 a.m. to 5 p.m. CST. Hours will soon expand further to 7 a.m. to 7 p.m.

Just as important, Project Daylight also initiated a tiered-service approach. That means call-center operators field initial calls, answer basic questions, and take basic information. More complex questions,

unique issues, and Spanish-language inquiries, however, can be referred to more experienced OCC staff members.

“I really like this new approach,” said Alicia Loya, Customer Assistance Specialist. “It gives us more time to speak with customers.”

Having an Impact

The CAG team views every complaint as an opportunity, according to Deputy Ombudsman Craig D. Stone. Some calls are an opportunity to educate consumers about applicable banking laws and to advise them of their rights. Other calls involve researching complaints about billing, credit card terms, checking accounts, mortgage loans, and other retail banking matters.

In the 12-month period ending in August 2006, the CAG team facilitated the return of nearly \$7 million to consumers and, in the last five years, nearly \$30 million. The vast majority of those cases involved less than \$200. In many cases, good will—not bank errors—prompted the return of funds.

“At the end of the day, there’s a lot of satisfaction because the consumers appreciate the effort,” said Howard Greene, a CAG Customer Assistance Specialist.

Improving the Supervisory Process

Although customer service is its primary mission, the CAG team also evaluates the data gained through the volume of calls for insights on improving the OCC’s bank supervisory process.



Analyses of the numbers of calls and categories of those calls point to areas of focus for bank examiners, such as compliance and managing the risks to bank reputation, according to Ombudsman Golden.

“Our systems give us the capability to look at data over time and identify trends and issues by product or banking regulation,” he said.

Over the past few years, several important pieces of bank guidance originated from complaint data, including guidance related to predatory lending, unfair or deceptive practices, credit card rates, and overdraft protection.

Through this complaint analysis and follow-up action, the OCC leverages its authority as the primary regulator of national banks to achieve its goals of ensuring the safety and soundness of the financial system, while ensuring equal access and fair treatment for bank customers.

My sincere thanks to you for achieving in a week, what I was unable to accomplish in almost a year. For you and [your] staff, please accept my deepest appreciation for the fine work you do everyday for others like me.

—Sally B.



■
The Comptroller saw firsthand how banks can make a positive impact on communities when he visited Chicago's West Side in May to tour housing and community development projects that are contributing to the economic well-being of neighborhoods.
■



Community Affairs

The OCC is a strong supporter of national banks' investments to revitalize neighborhoods and highly values its relationships with community groups and organizations dedicated to community development.

Throughout the fiscal year, OCC officials met with community groups and consumer organizations on issues of interest, including credit card fees and disclosures, nontraditional mortgages, fair lending, electronic check cashing fees, and predatory appraisals.

The Comptroller saw firsthand how banks can make a positive impact on communities when he visited Chicago's West Side in May to tour housing and community development projects that are contributing to the economic well-being of neighborhoods. The OCC's authority to approve national banks' investments in community development projects comes from a provision in federal law known as "Part 24."

"The trip highlighted in a very visible way the important role that national bank Part 24 public welfare investment authority plays in local communities," Mr. Dugan said at the end of that tour. "Community-based organizations have partnered with national banks in a number of key projects in the Near West Side to create affordable housing using low-income housing tax credits in which banks are major investors."

The Comptroller and members of his family also joined other OCC employees and their families in sprucing up apartments for families participating in a NeighborWorks America housing program in Northeast Washington, D.C.

The OCC produces publications to help banks meet their obligations under the CRA. Agency officials also held more than 300 consultations with bank executives during the year on strategies for fulfilling those obligations.

Other agency publications provide information about bank-owned community development corporations, financial literacy, hurricane recovery assistance, rural economic development, and low-income housing tax credits.

The OCC also produces an electronic newsletter with information about agency work in the area of fair treatment and fair access to financial services.



The OCC helped to organize and participated in the first of several regional conferences on the "unbanked"—consumers who have no accounts or loans with banks. The OCC and other financial regulators also sponsored a National Reinvestment Conference that brought together experts on strategies for revitalizing distressed communities. More than 500 bankers, government officials, and community representatives attended.

The OCC participates in the interagency Financial Literacy and Education Commission (FLEC) established to improve financial literacy and education in the U.S. In FY 2006, FLEC issued a strategy paper and launched MyMoney.gov, a Web site dedicated to teaching Americans the basics of financial education.