Strategic Goal III: A flexible legal and regulatory framework that enables the national banking system to provide a full, competitive array of financial services

The national bank charter is a unique and powerful instrument for carrying on the competitive business of banking. This charter offers national banks a legal framework that enables them to compete effectively and meet the evolving business needs of their customers, under a flexible and responsive system of supervision.

To set the bounds of activities permissible under the charter, the OCC establishes regulations, policies, operating guidance, and interpretations that set standards for the national banking system, define acceptable banking practices, provide guidance on risks and responsibilities facing national banks, and prohibit or restrict banking practices deemed imprudent or unsafe. The OCC also represents and defends its regulatory authorities and interpretations in administrative, judicial, and congressional hearings.

Legal and Regulatory Opinions

In response to inquiries from national banks, the OCC writes legal and regulatory opinions on a wide variety of banking-related topics, including the following:

Regulatory Capital

Regulatory capital requirements include risk-based capital, in which risk weights are assigned to specific types of assets and off-balance-sheet items to ensure that banks have adequate capital levels.

- The OCC issued several opinions addressing the appropriate factors to apply in calculating risk-based capital for multipurpose loan commitments, structured second mortgages, and securities lending transactions. OCC Interpretive Letters No. 1049 (January 17, 2006), No. 1057 (June 14, 2005), No. 1058 (April 20, 2005), and No. 1066 (November 8, 2005)

Investments

- Complex Structure with Indirect Credit Default Swap Index Exposure. OCC Interpretive Letter No. 1047 (December 20, 2005)

Derivatives

These permissible derivatives activities are subject to supervisory nonobjection based on the adequacy of the national bank's risk management and measurement systems and controls and other supervisory considerations relevant to the particular proposal. Derivatives and hedging provide banks and their customers with a mechanism to reduce risks associated with financial holdings and transactions.

- *Hedging.* National banks may purchase and hold below-investment-grade debt to hedge the counterparty credit risk exposures arising from the bank's derivatives activities, and to hedge risks arising from permissible customer-driven derivative transactions. OCC Interpretive Letter No. 1051 (February 15, 2006)
- *Customer-Driven Derivative Transactions.* National banks may engage in certain customer-driven derivative transactions based on a number of underlying commodities, such as frozen juice concentrate, polypropylene, and cardboard products. The agency issued a more comprehensive opinion in July 2006 identifying 11 categories of reference assets indices. OCC Interpretive Letters No. 1064 (July 13, 2006), No. 1039 (September 13, 2005), No.1056 (March 29, 2006), No. 1059 (April 13, 2006), No. 1060 (April 26, 2006), No. 1063 (June 1, 2006), and No. 1065 (July 24, 2006)

Bank Premises

- *Retail, Office, Lodging, and Residential Space.* A bank may hold, as permissible bank premises under 12 USC 29, a building containing retail and office space and commercial facilities for lodging out-of-town bank visitors, provided that the lodging space is operated by an independent, third-party company. Office and lodging space not used by the bank may be made available to the general public. The building may also include a certain number of residential condominiums that will be sold to the public by an unaffiliated real estate broker, because such mixed use is necessary for the project to be economically viable in the market where it is located. OCC Interpretive Letter No. 1044 (December 5, 2005). The rationale for this letter was further explained in OCC Interpretive Letter No. 1053 (January 31, 2006)
- *Lodging for Out-of-Town Bank Visitors.* A bank may hold, as permissible bank premises under 12 USC 29, commercial facilities for lodging out-of-town bank visitors, provided that the lodging space is operated by an independent, third-party company. Excess lodging space may be made available to the general public. OCC Interpretive Letter No. 1045 (December 5, 2005). The rationale for this letter was further explained in OCC Interpretive Letter No. 1053 (January 31, 2006)

Interstate Branching

- *Branching by Out-of-State Industrial Loan Companies.* Laws recently enacted in some states prohibit or restrict branching by out-of-state industrial loan companies. Those laws have the effect of defeating those states' laws that previously permitted interstate de novo branching into those states by banks generally. Therefore, the OCC, FDIC, and the FRB concluded that they cannot approve the establishment of de novo branches in such states by any out-of-state bank. OCC Interpretive Letter No. 1068 (July 28, 2006)

Lending

- *Wind Energy Project Financing.* A national bank may provide financing for a wind energy project by making an equity investment in the project. Because the transaction is structured to be the functional equivalent of a secured financing, it is permissible under 12 USC 371 and consistent with the purposes of 12 USC 29. Structuring the transaction in this manner permits the bank to capture tax benefits enacted to promote the flow of capital to renewable sources of energy. OCC Interpretive Letter No. 1048 (December 21, 2005). The rationale for this letter was further explained in OCC Interpretive Letter No. 1048a (February 27, 2006) and Interpretive Letter No. 1053 (January 31, 2006).

Litigation

The OCC was a party to, or prepared "friend of the court" briefs for, several cases that affirmed federal preemption of state law restricting national bank activities, including:

- *Four decisions upheld on appeal that federal law preempts state law restrictions on the activities of national bank mortgage operating subsidiaries.* U.S. courts of appeal for four circuits have upheld decisions by district courts in California, Connecticut, Maryland, and Michigan that granted national banks declaratory and injunctive relief in suits challenging states' efforts to license and exercise visitorial powers over the operating subsidiaries of national banks. In each case, the U.S. courts of appeal affirmed district court decisions that the National Bank Act and OCC regulations preempt state licensing and enforcement authority over the real estate lending activities of national bank operating subsidiaries. Connecticut and Michigan have asked the U.S. Supreme Court to review the decisions of the Second and Sixth Circuits, respectively. The Supreme Court granted Michigan's request for review of the Sixth Circuit's decision and is expected to issue a decision in that case in early 2007.[1]
- *Federal district court rules that the New York state attorney general may not enforce subpoena for mortgage loan records of national banks to enforce state fair lending statute.* The U.S. District Court for the Southern District of New York issued two decisions on October 12, 2005, in response to separate suits by the New York Clearing House Association and the OCC. These suits challenged the authority of the New York state attorney general to demand mortgage loan records of national banks and their operating subsidiaries as part of an investigation into real estate lending. In the first decision, the Court granted declaratory and injunctive relief to the OCC. This decision enjoined the New York attorney general from: 1) issuing subpoenas or demanding inspection of the books and records of any national banks for his investigation into residential lending practices, 2) instituting any enforcement actions to compel compliance with existing information demands, and 3) instituting actions in court to enforce state fair lending laws.[2] In the second decision, the Court granted the same injunctive relief granted in *Comptroller of the Currency* v. *Spitzer* and further enjoined the New York attorney general from instituting a parens patriae action to enforce the federal Fair Housing Act.[3] An appeal of both decisions is pending in the Second Circuit Court of Appeals.
- *Supreme Court rules that each national bank is a citizen of a single state.* The Supreme Court issued a decision on January 16, 2006, holding that a national bank is a citizen of the one state in which it maintains its main office, under the National Bank Act. The Supreme Court's decision reversed a decision by the Fourth Circuit Court of Appeals that had interpreted 28 USC 1348, containing the special jurisdiction provision for national banks, as providing that a national bank is a citizen of each state in which the bank has a branch or other physical presence.[4]

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[1] *Wachovia Bank, N.A.* v. *Burke,* 414 F.3d 305 (2nd Cir.) *petition for cert. filed;* 74 U.S.L.W. 3223 (U.S. September 30, 2005) (No. 05-431); *Wells Fargo Bank, N.A.* v. *Boutris,* 419 F.3d 949 (9th Cir. 2005); *Wachovia Bank, N.A.* v. *Watters*, 431 F.3d 556 (6th Cir. 2005), *cert. granted* 75 U.S.L.W. 3019 (U.S. June 19, 2006) (No. 05-1342); and *Nat'l City Bank of Ind.* v. *Turnbaugh,* ____F.3d _____ (4th Cir. 2006).

[2] *Comptroller of the Currency* v. *Spitzer,* 396 F.Supp.2d 383 (S.D.N.Y. 2005) *appeal docketed* (November 8, 2005).

[3] *Clearing House Association, LLC* v. *Spitzer,* 394 F.Supp.2d 620 (S.D.N.Y. 2005), *appeal docketed,* No. 05-5996 (2nd Cir. November 8, 2005).

[4] In earlier decisions, the Seventh and Fifth Circuits had interpreted 28 USC 1348 as providing that national banks, in parity with state banks, are citizens of at most two states: the state where the bank has its main office, and the state where the bank has its principal place of business. *Wachovia* v. *Schmidt,* ____ U.S. ____, 126 S.Ct. 941, 74 U.S.L.W. 4085 (2006).

- *Fair Credit Reporting Act preempts California statute that restricts information-sharing among affiliates.* The Ninth Circuit Court of Appeals held that the Fair Credit Reporting Act preempts those provisions of the California Financial Information Privacy Act (commonly known as SB1) that condition or prohibit affiliates from sharing information bearing on a consumer's creditworthiness, credit standing, credit capacity, character, or other factor used to establish the consumer's eligibility for credit or insurance. The appeals court directed the district court to determine whether any part of the state statute survived preemption and was severable.[5] On remand, the district court concluded that no part of the state law's affiliate-sharing prohibitions survives and that the statute was not severable.[6]

Rulemakings

Significant rulemakings completed in FY 2006 included:

- *Fair Credit Reporting Medical Information Regulations (12 CFR 41) 70 FR 70664 (November 22, 2005).* The OCC and other financial regulators issued a final rule to implement a provision of the Fair and Accurate Credit Transactions Act of 2003 (FACT Act) pertaining to the use of medical information in determining eligibility for credit. As authorized by the statute, the final rule creates exceptions to the FACT Act's general prohibition on creditors obtaining or using medical information for any determination of the consumer's eligibility for credit. The exception permits creditors to obtain or use medical information for credit eligibility determinations under certain circumstances. The rule also creates other, limited exceptions to permit affiliates to share medical information without becoming consumer-reporting agencies for purposes of the Fair Credit Reporting Act.
- *One-Year Post-Employment Restrictions for Senior Examiners (12 CFR 4) 70 FR 69637 (November 15, 2005).* This final rule, issued jointly with the FRB, the FDIC, and the OTS, implements a section of the Intelligence Reform and Terrorism Prevention Act of 2004. For one year after leaving federal service, an examiner who served as the senior examiner in a national bank for at least two months of the preceding 12 months is barred from accepting compensation as an employee, officer, director, or consultant in that national bank or a company (including a bank holding company) that controls that bank. For violations, the act requires the OCC to seek removal from the relevant bank of the former examiner or a prohibition order for up to five years. The OCC also may seek a CMP of up to $250,000.
- *Risk-Based Capital—Securities Borrowing Transactions: Final Rule (12 CFR 3) 71 FR 8932 (February 23, 2006).* The OCC, FRB, FDIC, and OTS issued a final rule applying to banks that are subject to a separate capital charge for market risk under risk-based capital rules. The rule permits the banks to include in risk-weighted assets an amount based on the difference between the amount of cash collateral posted and the market value of the borrowed security, subject to certain conditions. Because of changes in the final rule, banks borrowing securities from counterparties that are not exempted from U.S. federal bankruptcy treatment or receivership law may receive this capital treatment.

Licensing

The OCC grants national bank charters and approves the establishment or expansion of banking activities of existing national banks. The *Comptroller's Licensing Manual* outlines OCC procedures for handling licensing applications; the agency revised six booklets from the manual in FY 2006.

The OCC has several initiatives to evaluate and enhance its licensing programs, including a quality control program to improve procedures for processing bank applications for branches and de novo charters.

Licensing Decisions

The OCC made several significant licensing decisions in FY 2006:

- Conditional approval was given for several types of applications imposing a "significant deviation" condition. This condition requires the bank to notify the supervisory office at least 60 days before making a significant change or deviation to its business plan. OCC Conditional Approvals No. 705, 712, 714, 716, and 717
- The OCC approved an operating subsidiary to offer services for customers to engage in capital gains tax-deferred exchanges of business and investment property under the Internal Revenue Code. Such transactions are called like-kind exchanges. OCC Conditional Approval No. 706 (October 6, 2005)
- The OCC approved a limited federal branch to be located in Florida. A limited federal branch is a branch of a foreign bank that can accept deposits from foreign states

5 *American Bankers Ass'n* v. *Gould,* 412 F.3d 1081 (9th Cir. 2005).

6 *ABA* v. *Lockyer,* 2005 WL 2452798 (E.D. Cal. October 5, 2005), appeal docketed No. 05-517163 (9th Cir. November 9, 2005).

or individuals, but not U.S. citizens or corporations. OCC Conditional Approval No. 727 (January 3, 2006)

- A bank received approval to establish a wholly owned operating subsidiary to provide Internet access, including dial-up Internet service provider (ISP) service, to its customers and nonbank customers as part of its package of Internet banking services. It may not sell ISP services to new nonbank customers unless it demonstrates compliance with 12 CFR 7.5004 and obtains the OCC's prior approval. OCC Conditional Approval No. 733 (February 16, 2006)
- The OCC approved the expansion of a limited bank charter to a full-service charter. Such requests to expand powers are infrequent and are evaluated in a similar manner as an application for a de novo charter. OCC Conditional Approval No. 707 (October 14, 2005)

Table 3: Corporate Application Activity, FY 2005 and 2006

	Applications received		*FY 2006 Decisions*			
			Approved	**Conditionally approved**[4]	**Denied**	**Total**
	FY 2005	**FY 2006**				
Branches	1,645	1,872	1783	2	2	1,790
Capital/sub debt	141	167	50	5	0	55
Change in Bank Control	17	9	4	0	0	8
Charters	26	47	4	30	0	34
Conversions[1]	15	15	5	7	0	12
Federal branches	2	3	0	2	0	2
Fiduciary powers	22	30	13	1	0	14
Mergers[2]	69	62	61	3	0	64
Relocations	259	274	269	0	0	271
Reorganizations	116	123	122	10	0	132
Stock appraisals	2	0	0	0	0	2
Subsidiaries[3]	23	27	30	4	0	35
12 CFR 5.53 Change in Assets	4	3	0	5	0	5
LTD NB upgrade	NA	5	0	1	0	1
Total	2,341	2,637	2,341	70	2	2,425

[1] Conversions are conversions to national bank charters.

[2] Mergers include failure transactions when the national bank is the resulting institution.

[3] This count does not include 128 After-the-Fact notices received in FY 2005 and 93 After-the-Fact notices received in FY 2006.

[4] On April 14, 2000, the Licensing department issued guidance imposing special conditional approval for all bank charters requiring the OCC to be notified before a significant deviation or change in the operating plan during the first three years of operation.

Table 4: OCC Licensing Actions and Timeliness, FY 2005 and 2006

	FY 2005				*FY 2006*		
			Within Target			Within target	
Application type	Target time frames in days[1]	Number of decisions	Number	%	Number of decisions	Number	%
Branches	45 / 60	1,550	1,519	98	1,790	1,721	96
Capital / sub debt	30 / 45	57	48	84	55	48	87
Change in Bank Control	NA / 60	17	17	100	8	8	100
Charters[2]	See footnote 2	20	17	85	34	21	62
Conversions	30 / 90	16	7	44	12	9	75
Federal branches	NA / 120	0	0	NA	2	1	50
Fiduciary powers	30 / 45	11	6	55	14	9	64
Mergers	45 / 60	63	53	84	64	54	84
Relocations	45 / 60	242	237	98	271	267	99
Reorganizations	45 / 60	107	88	82	132	100	76
Stock appraisals	NA / 90	0	0	NA	2	2	100
Subsidiaries	30 / 60	43	43	10	35	35	100
12 CFR 5.53 Change in Assets	NA / 60	2	1	50	5	4	80
LTD NB upgrade[2]	See footnote 2	0	0	NA	1	0	0
Total	NA	2,128	2,036	96	2,425	2,279	94

Note: Most decisions (99 percent in 2005 and 98 percent 2006) were decided in the district offices and Large Bank Licensing under delegated authority. Decisions include approvals, conditional approvals, and denials.

[1] Those filings that qualify for the "expedited review" process are subject to the shorter of the time frames listed. The longer time frame is the standard benchmark for more complex applications. New time frames commenced in 1997 with the adoption of the revised Part 5. The target time frame may be extended if the OCC needs additional information to reach a decision, permits additional time for public comment, or processes a group of related filings as one transaction.

[2] For independent charter applications, the target time frame is 120 days. For holding-company-sponsored applications, the target time frame is 45 days for applications eligible for expedited review, and 90 days for all others.

Table 5: Change in Bank Control Act[1] CY 2002–FY 2006

Year	*Received*	*Acted On*	*Not Disapproved*	*Disapproved*	*Withdrawn*
FY 2006	9	8	4	0	4
FY 2005	17	17	17	0	0
FY 2004	16	14[2]	13	0	0
FY 2003*	16	10	9	1	0
CY 2002	10	10	9	1	0

* Reporting changed from calendar year to fiscal year, starting October 1, 2002 (FY 2003).

[1] Notices processed with disposition.

[2] Includes one notice with no activity. The OCC considered it abandoned.

Change in Bank Control

The OCC administers the Change in Bank Control Act (CBCA) to prevent adverse effects from anti-competitive mergers, acquisitions, consolidations, or other business combinations; inadequate financial support; or unsuitable management of national banks. The OCC reviews each CBCA notice and disapproves transactions that could have serious harmful effects. When the notice raises fundamental supervisory or other issues that cannot be mitigated through an agreement, the OCC disapproves the proposal. The OCC is coordinating with Federal Reserve banks on CBCA applications so the OCC can seek certain safeguards from acquiring holding companies of national banks.

The OCC received adverse comments from the public and subsequently rendered decisions on the following 10 CRA-covered applications during the year.

Table 6: Applications Decided That Presented Community Reinvestment Act Issues, FY 2006

Bank, City, State	Interpretations and Actions	Document Number
Citibank, NA, New York, NY	October 2005	CRA Decision No. 126
Associated Bank, NA, Green Bay, WI	November 2005	CRA Decision No. 127
JPMorgan Chase Bank, NA, Columbus, OH	December 2005	CRA Decision No. 128
HSBC Bank Nevada, NA, Las Vegas, NV	November 2005	CRA Decision No. 129
NBT Bank, NA, Norwich, NY	January 2006	CRA Decision No. 130
TD Banknorth, NA, Portland, ME	December 2005	CRA Decision No. 131
Harris, NA, Chicago, IL	February 2006	CRA Decision No. 132
Huntington National Bank, Columbus, OH	February 2006	CRA Decision No. 133
Rabobank, NA, EL Centro, CA	May 2006	CRA Decision No. 134
Trustmark National Bank, Jackson, MS	September 2006	CRA Decision No. 135

Regulatory Efficiency

The OCC and the other FFIEC-member agencies have participated in a comprehensive multi-year review of the agencies' regulations, as required by the Economic Growth and Regulatory Paperwork Reduction Act of 1996 (EGRPRA). The purpose of the review is to identify and, as appropriate, eliminate unnecessary regulations. In FY 2006, the agencies completed the process of publishing their regulations in the *Federal Register* for public comment and concluded a series of outreach meetings in conjunction with the requests for written comment. As required by the statute, the agencies plan to submit a report to Congress in FY 2007 on the results of their review. In addition, the OCC is considering what revisions to its regulations are appropriate in light of the results of the EGRPRA review.

On October 13, 2006, the President signed into law the Financial Services Regulatory Relief Act. This legislation contains provisions that contribute to the reduction of unnecessary regulatory burden for national banks, including provisions that:

- Simplify national banks' statutory authority to pay dividends and reduce capital.
- Increase, from $250 million to $500 million, the asset-size threshold enabling banks that are well capitalized, well managed, and satisfy certain other statutory requirements to have a full-scope, on-site examination once every 18 months, rather than once every 12 months.
- Clarify that a bank does not waive any applicable privilege if it discloses information to a federal, state, or foreign bank supervisor as part of a supervisory or regulatory process. (The bank may not assert that privilege against its supervisor, however.)
- Require the OCC and certain other federal agencies to develop jointly a proposed model for a more user-friendly privacy disclosure notice.

Strategic Goal IV: An expert, highly motivated, and diverse workforce that makes effective use of OCC resources

The OCC pursued an array of management initiatives in FY 2006 to achieve its goals for human capital, security, process improvement, and technology.

Human Capital

The OCC supervises a remarkably diverse group of institutions, ranging from small community banks to the world's largest financial institutions. To carry out the agency's supervisory mission, the Comptroller and the Executive Committee have made a top priority of maintaining a diverse, highly skilled, and strategically deployed workforce.

In response to challenges posed by impending civil service retirements and the need to foster the evolution of the agency's future leadership team, the OCC has mounted a broad initiative to recruit, retain, and develop employees with the necessary skills and qualities. *BusinessWeek* magazine recognized the quality of the OCC work environment during this fiscal year by naming the OCC one of the "50 best places to launch a career."

In executing its comprehensive strategy, the agency is recruiting both highly experienced and entry-level employees, and shifting internal expertise to where it is needed most. During the fiscal year, the OCC hired an unprecedented number of industry specialists for Large Bank Supervision. These specialists are seasoned experts from banks and elsewhere in the financial world who want to steer their career paths toward public service. By continually introducing new expertise to its workforce, the OCC enjoys the benefits of a stream of fresh ideas that keep the OCC at the forefront of the banking industry. Most of these highly experienced new employees work in key financial centers, such as New York and Charlotte.

After hiring employees, the agency moves its focus to training and retaining them. On large bank teams, the OCC recently established a program for bringing the newly hired industry specialists on board, assigning a highly skilled advisor to each of them, teaching them about the culture and policies of the agency, providing regular feedback on performance, and soliciting their comments on their initial experiences at the OCC.

Internal recruitment in FY 2006 concentrated on redeploying examiner expertise to the supervision policy group led by the Chief National Bank Examiner and to large banks in high-cost cities. To attract internal candidates, the OCC emphasized the importance of these assignments to career advancement and provided incentives, including relocation bonuses, mortgage subsidies, financial assistance for renters, and transitional cost-of-living reimbursements.

The OCC also continued its nationwide program to recruit and train entry-level bank examiners. Building on the relationships reestablished three years ago with colleges across the nation, the agency competed for the best talent and hired 162 entry-level examiners in FY 2006. This pool of examiners was distinctive not only for the high quality of the individuals hired, but for the diversity of the pool as a whole. Fifty-one percent of these new examiners are women and 29 percent are minorities.

Since the inception of this program in 2003, the agency has brought aboard about 430 entry-level examiners. The agency also instituted an aggressive retention program to keep these new employees after their critical first five years, when many examiners make a decision about whether to continue their careers with the OCC.

For an examiner out of college, a near-term goal is to pass the Uniform Commission Examination to become a National Bank Examiner, a title that carries high credibility at the OCC and throughout the financial industry. Once the OCC instills basic skills in a new bank examiner, the emphasis often turns toward identifying and developing skills in key specialty areas. This skill development feeds the pipeline from community bank supervision to jobs in large banks or Headquarters.

The agency's Committee on Bank Supervision, made up of three Senior Deputy Comptrollers, is undertaking a major project centered on those key specialty skills: Asset Management, Bank Information Technology, Capital Markets, Compliance, Commercial Lending, Retail Lending, Mortgage Banking, and Operational Risk. A project team of managers and subject matter experts from those eight critical business lines developed a Specialty Skills Assessment framework that, when fully implemented, will help bank supervision managers identify resource needs and available expertise with greater precision. That will allow the agency to maximize its use of existing resources and to develop strategic plans to meet future staffing needs.

FY 2006 also marked the establishment of the Office of Leadership, Learning, and Workplace Fairness (LLWF), which supports OCC's commitment to equal employment opportunity, succession planning, and high-quality learning.

The OCC has strengthened its leadership programs, recognizing that strong leaders are the key to maintaining the strategic direction of the agency and effective bank supervision in the future. The agency built a leadership development framework and wrote a strategic plan for a comprehensive program to train current and future leaders. This program includes a leadership development advisory board, five pilot leadership development courses focusing on key competencies, an executive coaching program, and a manager forum to enhance knowledge-sharing, learning, and skill development.

The OCC also introduced the "LeaderTRACK" program during the fiscal year to manage succession and prepare leaders for bank supervision. The program, which will be piloted for 18 months beginning in FY 2007, offers six participants a series of assignments with significant managerial and supervisory roles.

BusinessWeek magazine cited the OCC as a great place to begin a career.

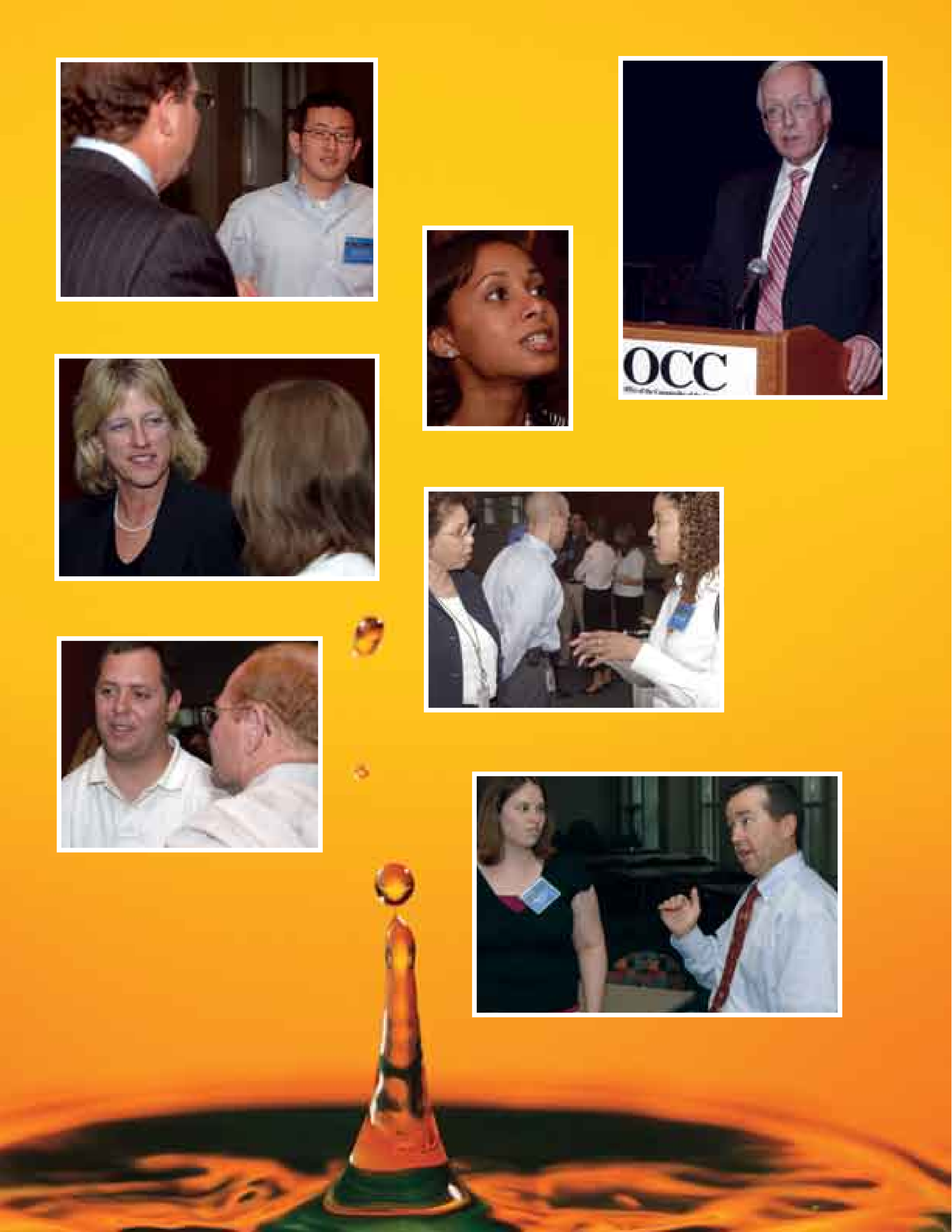
For its employees to have the knowledge and skills to meet agency challenges, OCC delivered its training in FY 2006 through hundreds of classes and events. The OCC's online learning management system continues to be the primary vehicle to administer, track, and report on internal training for employees.

A fair workplace helps to ensure that OCC will retain the talent it needs to meet the demands of supervising the national banking system. OCC continued its commitment to a fair workplace by:

- Conducting online briefings about employees' rights under employment discrimination laws, the "No Fear Act," and whistleblower protection.
- Adding facilitation to its menu of alternative dispute resolution options and training a cadre of facilitators.
- Participating in the Federally Employed Women's conference and the Equal Employment Opportunity (EEO) Commission's national conference.
- Making a presentation on workplace fairness and the future of EEO during OCC's four district conferences for employees.

The OCC has continued to demonstrate its commitment to workplace diversity by supporting four affinity groups, which are special-interest organizations of employees who meet to discuss workplace issues and communicate with agency leaders to improve agency operations, personnel management, and employee effectiveness.

For the OCC, meeting the challenge of hiring, retaining, and developing a highly effective workforce is imperative, now and for the future.


OCC

OCC's Workforce of the Future

Green and blue lines on charts tell a compelling story in an annual "State of the Workforce" presentation for the Comptroller and the Executive Committee.

The story is about significant challenges—and significant opportunities—that have prompted agency leaders to design and execute a detailed strategy for hiring, retaining, and developing employees for the workforce of the future to supervise the national banking system.

The charts show a shrinking pool of potential successors to OCC supervisors who retire over the next several years, a sharp increase in recent years of bank examiners over age 50, and a sharp drop of examiners in their thirties.

The challenge is to prepare for the succession to OCC leadership. The opportunities are for all employees who are poised and eager for advancement.

To John G. Walsh, Chief of Staff and Public Affairs, the message of opportunity is clear for employees who are beginning their careers with the OCC. "Look at the place and think about what you'd like to do," he said. "Chances are, you'll be able to do it."

Baby Boomers Retiring

The agency is subject to the same demographic trends facing employers across the nation. The baby boom generation has reached retirement age. "OCC is essentially in the same boat as everyone else," noted Pat Pointer, Deputy Comptroller for Workforce Effectiveness.

Yet, as she also pointed out, the OCC has unique flexibilities and resources to meet the challenge and is moving with dispatch to develop future agency leaders.

In five years, almost a third of the OCC workforce will be eligible for retirement. The potential impact is most acute in Large Bank Supervision, which has a highly experienced, senior-level workforce.

Changes in Hiring

Aside from nationwide demographics, trends unique to the U.S. banking industry have influenced the makeup of the labor force of the OCC and other federal banking regulators.

Although national bank assets have climbed steadily in the last decade, the number of national banks declined as the industry consolidated. Since 1993, those assets have doubled, while the number of national banks dropped by almost half. Spurred by the reduction in bank numbers, the OCC cut its workforce in the mid-1990s by almost one-third. When hiring resumed in 1997, it centered on seasoned experts from the banking industry. The agency resumed hiring entry-level examiners in 1999 but the emphasis on experience continued until 2003. Since then, more than 80 percent of new OCC employees have been at the entry level.

These hiring patterns have contributed to the composition of an OCC workforce that has two-and-a-half times as many examiners over age 40 as under age 40.

Retirement-eligible baby boomers might be more apt than workers in earlier generations to stay on the job beyond retirement age. At the OCC, employees stay on the job for an average of three years past retirement eligibility. Still, the situation has created the imperative for the OCC to establish initiatives to develop the next class of agency leaders.

Although many of these leaders will no doubt continue to come from the more seasoned portion of the workforce, the rise in retirement eligibility also provides an incentive for younger employees to remain at the OCC to pursue expanded career opportunities. These workers may be more mobile and less likely than older colleagues to remain with a single employer for their entire careers, but opportunities to grow toward leadership roles are keys to retaining them.

Younger workers must be able to see a promising future. At the OCC, the expected decline in the average age of supervisors in coming years spells a surge of opportunity.

Information Security and Emergency Preparedness

Ensuring the security of sensitive information entrusted to the custody of the OCC is critical to performing the agency's mission safely and effectively.

The OCC has multiple layers of security to protect the integrity of sensitive information and to prevent unauthorized access to that information. To evaluate the effectiveness of those security controls and recommend improvements, the agency hired an external consultant in late FY 2006 to conduct an end-to-end security review. As the evaluation proceeds, the OCC will consider and implement recommended changes immediately. The project will conclude during the second quarter of FY 2007.

The agency took several other steps during the fiscal year to improve its information security environment. These included:

- Continuing the information security awareness training program for all employees and contractors.
- Completing vulnerability assessments of the OCC computer network.
- Improving the OCC network infrastructure to detect unauthorized access from outside the OCC network, to detect unauthorized behavior inside the network, and to analyze security incidents after the fact.
- Working with other bank regulatory agencies to implement cost-effective approaches to exchanging encrypted e-mail with banks and each other.
- Implementing an integrated personal identity verification process to comply with federal requirements.
- Implementing digital fingerprinting systems, document verification software, and a system to exchange secure information on a real-time basis with the Office of Personnel Management.

The OCC's emergency management program prepares the agency for emergencies that disrupt operations. The OCC tested its Continuity of Operations Plan (COOP) during FY 2006, participated in the government-wide Forward Challenge '06, and updated its strategies for maintaining management capability and using internal communications in an emergency.

Process Improvement

Programs are continually reviewed to minimize burden on the OCC and national banks, and to improve their effectiveness and productivity. During the fiscal year, the OCC:

- Reengineered its processes for collecting assessments from banks to reduce effort by national banks and the agency's financial staff.
- Developed the Office of Management's "OM At-A-Glance" on the OCC intranet to reduce time staff spends finding information about salaries, benefits, travel, and other administrative matters.
- Received delegated authority for investigating EEO complaints and implemented a cost-effective program to ensure compliance during EEO investigations.

For some reengineering projects, the OCC uses a methodology for analyzing its business processes to improve quality and efficiency. This approach improves those business processes, eliminates waste, reduces the burden of compliance with statutory and regulatory requirements, and delivers more value to customers. Since FY 2005, more than 30 of these projects have produced $1.3 million in savings and allowed the OCC to make more effective use of its employees.

Technology

The OCC provides timely, high-quality technology solutions to its employees. The agency's information technology professionals develop enterprise information strategies, policies, and standards; oversee information technology investments; and create a secure and efficient information management environment.

Throughout its history, OCC has dealt primarily with information about banks and the national banking system. The agency has made significant investments in several vital projects that are under way to apply the latest technology to manage this information in ways not possible in the past.

The most wide-ranging of these projects will automate information management in examinations of large national banks. Bank examiners and their managers will use the new system to develop exam documents collaboratively, store documents securely, search for information effectively, and share documents easily.

Another large project is building an electronic system for OCC employees to receive, process, and monitor licensing applications that banks file online for activities such as establishing branches, relocating offices, and obtaining charters to become national banks.

Two other projects are teaming up to improve important agency information—and the delivery of that information—for bank examiners, other OCC employees, national banks, and members of the public. One of them is overhauling the agency's outmoded, print-based publishing process to produce mission-critical publications, such as bank examination handbooks, that are more timely, accessible, and searchable. The other is redeveloping the OCC's employee intranet, public Web site, and National BankNet, a private site for bankers, into state-of-the-art Web sites.

Underpinning each of these projects is an initiative to develop a secure electronic repository to store the agency's essential records. Each of the projects will be sending records to this electronic records management system for safekeeping.

To enhance its ability to manage these crucial projects, the agency established program management offices in two of its major business units—the Office of Management and Large Bank Supervision. These offices provide expertise in project management, planning, and implementation to ensure that technology solutions meet business unit requirements.

The Comptroller and Chief of Staff tour the OCC Data Center in Maryland.