

# Operations and Accomplishments

To achieve its strategic goals and accomplish its mission, the OCC aligns its activities into four major program areas: supervise, charter, regulate, and analyze risk. The OCC's budget is formulated and costs are tracked by these programs (Table 1). The OCC's most significant accomplishments and activities for FY 2003 are discussed by program. Where the data is available and as appropriate, comparative data for prior years is included in the discussion.

**Table 1: Program Costs and FTE, FY 2003 and 2002**

	FY 2003				FY 2002			
	Costs		FTE		Costs		FTE	
	Dollars (in millions)	%	Number	%	Dollars (in millions)	%	Number	%
Supervise Program	\$387.5	86%	2,360	86%	\$360.4	85%	2,372	85%
Charter Program	11.6	2%	75	3%	11.3	3%	79	3%
Regulate Program	25.9	6%	173	6%	25.0	6%	173	6%
Analyze Risk Program	26.1	6%	153	5%	25.7	6%	168	6%
Total OCC	\$451.1	100%	2,761	100%	\$422.4	100%	2,792	100%

## SUPERVISE PROGRAM

This program encompasses the supervision of national banks or their subsidiaries, federal branches and agencies of foreign banks, national trust companies, bank data software vendors, and data processing service providers. The Committee on Bank Supervision establishes and oversees areas of emphasis for the OCC's supervisory activities. The committee is comprised of the Chief National Bank Examiner and the senior deputy comptrollers for Large Bank Supervision and Mid-size/Community Bank Supervision.

The supervise program is by far the largest program and is the core for accomplishing the OCC's mission. The OCC for FY 2003 devoted 2,360 full-time equivalents<sup>2</sup> (FTEs) or 86 percent of total FTEs, to the supervise program. The cost of the supervise program was \$387.5 million in FY 2003.

<sup>2</sup> Full-time equivalent is the number of paid hours accumulated during an entire fiscal year by a full-time position (40 hours per week). Generally, this is between 2,080 and 2,096 hours depending on the number of paid days that fall within a given year.

Two business lines reside within the supervise program, large banks and mid-size/community banks. The business line approach recognizes that institutions of varying sizes and complexity present different risks and require unique supervision philosophies.

The OCC’s large bank program is responsible for supervising the 24 largest national banking companies, using teams of dedicated onsite examiners. During FY 2003, areas of supervisory emphasis for the large bank program included management performance and board governance, the integrity of banks’ financial statements, ensuring adherence to accepted accounting practices, credit underwriting, allowance for loan and lease loss reserve adequacy, operational and technology-related vulnerabilities, and internal controls.

Approximately 23 banking companies are in the OCC’s mid-size bank program, and approximately 25 companies are in the OCC’s credit card bank program. During FY 2003, the OCC established a new department to supervise mid-size and credit card banks under the responsibility of a deputy comptroller. This organizational realignment focused resources on the increasing complexities unique to mid-size and credit card companies.

The OCC’s community bank program generally covers national banks with less than \$1 billion in total assets. Banks are assigned to an OCC portfolio manager who oversees the supervisory strategies for the banks. These strategies combine onsite examinations and off-site analysis to monitor bank performance. During FY 2003, areas of supervisory emphasis for the community bank program included credit quality, adequacy of the allowance for loan and lease losses, and banks exhibiting aggressive growth.

The supervise program is divided into three subprograms: examining, enforcing, and ensuring fair access and fair treatment. The OCC’s most significant supervision accomplishments are discussed by subprogram.

## Examining

Examining activities include conducting regularly scheduled or targeted examinations and off-site analysis. During FY 2003, the OCC conducted almost 3,400 bank examinations to ensure a strong national banking system that helps to sustain the U.S. economy. The vast majority of examinations conducted assessed the safety and soundness of bank operations. The distribution of the types of examinations conducted by the OCC during FY 2003 is presented in Table 2.

**Table 2: Type and Number of Bank Examinations, FY 2003**

Type of Examination	Number of Exams
Safety and Soundness	1,611
Compliance	835
Community Reinvestment Act	565
Asset Management	378

Overall, national banks have continued to operate in a safe and sound manner as shown by bank examinations and the resulting CAMELS ratings and assessments of capital levels. The OCC exceeded all of its customer service standards for conducting examinations in a competent and professional manner as rated by bank officials. The customer service results were based on 844 examination surveys completed by banks during the year, which was a 40 percent response rate. The survey is based on a five-point scale, in which 1 indicates complete agreement and 5 indicates complete disagreement with the survey statements. The results of the examining and customer service performance measures are shown in Table 3.

**Table 3: Examining and Customer Service Performance Measures, FY 2003**

<b>Performance Measures</b>	<b>Target</b>	<b>Actual<sup>3</sup></b>
Percentage of national banks that are well-capitalized	95%	<b>99%</b>
Percentage of national banks with composite CAMELS rating of 1 or 2	90%	<b>94%</b>
Average survey response that the examiner-in-charge and the examination team were knowledgeable	≤ 1.5	1.26
Average survey response that the examiner's requests for information before and during the examination were reasonable and justified by the examination scope	≤ 1.75	1.31
Average survey response that the examination team conducted the examination in a professional manner	≤ 1.75	1.20
Average survey response that during exit and board meetings, the examiner-in-charge and examination team clearly and effectively communicated their findings and concerns	≤ 1.75	1.27
Average survey response that the report of examination clearly communicated examination findings, significant issues, and the corrective actions (including time frames) management needed to take	≤ 1.75	1.26
Average survey response that on-going communication by the examiner-in-charge with senior management and the board was appropriate	≤ 1.75	1.25

In addition to bank examinations, other significant supervision activities in FY 2003 included anti-terrorist financing initiatives, a bank supervision initiative to refocus mid-size and community bank supervision efforts, and the development or enhancement of computer-based applications designed to improve the analysis of bank and examination data. These activities are discussed in more detail as follows.

<sup>3</sup> Performance numbers shown in bold italics are estimates. Some performance data is obtained from quarterly call reports from banks. The September 30, 2003 call reports are not due until 30 or 45 days after the end of the period. Additionally, examinations concluded late in the fiscal year are not finalized for another 30 to 60 days. As a result, complete fiscal year data is not yet available so estimates have been reported.

### ***Anti-Terrorist Financing Initiatives***

Building on FY 2002 activities, the OCC completed additional initiatives to respond to the USA PATRIOT Act requirements and the threat of terrorist financing in the national banking system. These included providing a teleconference for bankers on USA PATRIOT Act requirements and the OCC's examination process and initiatives, implementing a developmental program to expand the OCC's pool of Bank Secrecy Act/Anti-Money-Laundering (BSA/AML) experts, and publishing a reference guide for bankers: "Money Laundering: A Banker's Guide to Avoiding Problems."

The OCC provided the industry guidance on terrorist financing and the USA PATRIOT Act that included instructions on reviewing customer files for potential terrorists and money launderers. The OCC also performed follow-up examinations on banks examined during its FY 2002 program that evaluated bank AML systems, including terrorist financing controls and USA PATRIOT Act compliance. Finally, the OCC provided speakers for industry conferences on the subject of AML and the USA PATRIOT Act and participated in U.S. government anti-terrorist financing and AML initiatives involving other countries.

### ***Bank Supervision Initiative***

Bank supervision management implemented an initiative during FY 2003 to refocus mid-size and community bank supervision efforts. This initiative called for developing institution-specific supervisory strategies to ensure effective use of limited examination resources, while concentrating on significant risks to the institution. It relies on enhanced surveillance tools and examiner judgment for early problem identification and resolution. The initiative reduced examiner administrative burden, so that additional time could be devoted to direct bank supervision.

### ***Financial Institution Data Retrieval System***

The Financial Institution Data Retrieval System (FINDRS) application allows bank supervision staff quick and easy "self service" access to a database of information about holding companies, banks, EDP servicers, and federal branches. It replaces an aging mainframe system with a Web-based application. The information available through FINDRS comes primarily from bank and holding company reports of condition. The application allows the creation of systemic and comparative analysis reports as well as reports on specific institutions.

### ***National Credit Tool***

The National Credit Tool is a new examination tool for improving the efficiency and effectiveness of loan reviews in community and mid-size banks. The National Credit Tool enhances the efficiency and quality of the loan portfolio examination process by automatically producing valid statistical samples for examination, automatically preparing worksheets previously completed manually, and generating standardized reports. The improved efficiency allows examiners to devote more time to the analysis of bank data.

## ***National Bank Appeals***

The national bank appeals process resolves individual appeals and inquiries from national banks. The Ombudsman, with the consent of the Comptroller, has the discretion to stay any agency decision or action during the resolution of an appealable matter. The Ombudsman's office processed more than 150 substantive inquiries, including formal appeals, during FY 2003.

### **The OCC's Receptive Ear**

The Office of the Ombudsman oversees the National Bank Appeals Program, the Customer Assistance Group, and the administration of the Examination Questionnaire. The office is steadfastly committed to the core principles of timely and fair dispute resolution and quality customer service.

The Ombudsman's Office was established in 1993 to provide bankers with a method of resolving disputes that persist despite efforts to resolve them at the operational level. The Ombudsman has decision-making authority to resolve appeals - a function similar to that of a binding arbitrator. The office operates independently, outside the agency's bank supervision function.

Through the National Bank Appeals Program, the Ombudsman receives 10-to-15 formal appeals each year along with approximately 150 to 200 substantive inquiries. These issues generate information that allows the OCC to refine and polish policies, processes, and procedures to benefit the industry and the agency. Bankers use this forum to discuss concerns and problems confidentially, brainstorm options, and seek advice.

The Customer Assistance Group (CAG) acts as a liaison between national banks and their customers; however, it is not an advocate for either party. The non-biased assistance with problem resolution is beneficial to all concerned, and reflects the OCC's commitment to ensure fair access to financial services and fair treatment for all national bank customers. The group's constituents include the national banks, customers of national banks, and the OCC's bank supervision divisions. The function moved to the Ombudsman's Office in June 1997, and a centralized, re-engineered function began operation in Houston, Texas, in April 1998.

CAG specialists provide callers with current information on banking regulations, while trying to resolve as many cases as possible at the point of first contact. CAG specialists are able to handle cases in languages other than English. The incorporation of a Web-based complaint resolution process, called CAGNet, a quality assurance program, and 24-hour, 365-days-a-year Internet access have enhanced the CAG's ability to deliver responsive customer service.

Credit cards and checking accounts remain the highest source of consumer complaints. Other subjects of consumer complaints involve a broad spectrum of other bank products and services, including home mortgages, non-deposit investments, insurance products, and asset management.

By facilitating communications between national banks and their customers, the CAG supports industry efforts to sustain a broad and satisfied customer base in a highly competitive financial services market.

The OCC solicits feedback from bankers through the Bank Examination Questionnaire, attached to every report of examination, to improve the effectiveness of bank supervision. The Office of the Ombudsman administers these questionnaires and responses to ensure independence and confidentiality. This function alleviates bankers' concerns over retaliation or retribution and reassures examiners that the questionnaires will not be used in performance management. Responses also allow the OCC to refine and enhance the quality of supervisory efforts.

The Ombudsman or the assistants to the Ombudsman review each questionnaire and decide whether further contact with the banker is warranted. The response rate to the OCC's questionnaire has been good.

## Enforcing

Enforcement activities ensure that the laws, regulations, and policies are followed by individual national banks. Activities include the OCC's formal enforcement actions, as well as more informal actions to support prompt detection and mitigation of problems before they affect a bank's viability. The OCC conducts investigations, takes administrative actions, and litigates those actions on behalf of the OCC in enforcement proceedings.

During FY 2003, the OCC took various formal and informal enforcement actions against national banks and institution-affiliated parties who engaged in violations of laws and regulations and/or unsafe or unsound banking practices, including formal agreements; temporary cease-and-desist orders; final cease-and-desist orders; removal and/or prohibition orders; and civil monetary penalties (CMPs). The OCC also continued its Fast Track Enforcement Program (initiated in 1996), which helps ensure that bank insiders and employees who have committed criminal acts involving banks, but who are not being criminally prosecuted, are prohibited from working in the banking system. This program resulted in several prohibition and personal cease-and-desist orders during FY 2003. Table 4 below summarizes all enforcement actions completed in FY 2003.

**Table 4: Enforcement Actions, FY 2003**

Type of Enforcement Action	Against National Banks	Against Institution-Affiliated Parties
Cease-and-Desist Orders	23	28
Temporary Cease-and-Desist Orders	1	3
Civil Monetary Penalties	7	30
Civil Monetary Penalties Amount	\$284,400	\$783,500
Formal Agreements	33	1
Memoranda of Understanding	17	-
Commitment Letters	9	-
Letters of Reprimand	-	12
Consent Removal/Prohibition Orders	-	43
Total Enforcement Actions	90	117

A discussion of some noteworthy formal enforcement actions taken by the OCC during this period follows.

## ***Payday Lending***

All national banks with known payday lending activities through third-party vendors were ordered in FY 2003 to exit the payday lending business. By undertaking enforcement actions against those banks, the OCC addressed safety and soundness concerns about the management of these payday loan programs, and ended significant consumer protection violations.

- Examiner visits documented that a bank and its vendor routinely violated multiple consumer protection laws and regulations. The vendor was ordered to terminate its payday lending relationship with the bank and to refrain from contracting with another national bank until assured by the OCC that the agency would not object. A second order required the bank to exit the payday lending business and pay a CMP of \$175,000.
- The OCC determined that an employee of a bank's third-party vendor improperly directed the disposal of payday loan files, resulting in violations of several laws and the OCC's Customer Privacy Standards. The bank's inability to produce loan records resulted in further violations. The third-party vendor was ordered to discontinue its relationship with the bank and to refrain from contracting with another national bank until assured by the OCC that the agency would not object. The bank was ordered to terminate its payday lending relationship with the vendor and agreed not to re-enter the payday loan business without the OCC assurance that the agency would not object. CMPs in the amount of \$225,000 against the vendor and \$75,000 against the bank were ordered.
- In addition to finding a variety of deceptive acts or practices and conflicts of interest, the OCC determined that a bank's oversight of its payday lending operation was weak, resulting in significant data integrity errors. The bank failed to correct deficiencies identified by bank audits. The OCC required the bank to terminate its payday lending business through its payday vendors.

## ***Unfair and Deceptive Acts or Practices***

The OCC has continued to respond vigorously to business practices of national banks that are abusive, unfair, or deceptive, thereby promoting fair treatment of bank customers and fair access to financial services for all Americans.

- While under a consent order to cease operation, a Competitive Equality Banking Act (CEBA) bank continued to charge customers annual fees, in some cases causing them to exceed their credit limit and generating "overlimit fees." The OCC charged that the bank violated the Federal Trade Commission (FTC) Act, because fairness and clarity would require the bank to have notified customers of the inevitable termination of their cards before the expiration of a full year. Under an OCC Formal Agreement, the bank agreed to refund fees, with total restitution exceeding \$2 million.

- The OCC determined that a bank’s credit card programs violated section 5 of the FTC Act. The bank’s program included a message that the card had “no annual fee,” although a monthly fee was charged. The OCC required the bank to establish a \$6 million reserve to fund restitution payments to consumers.
- A bank issued private label cards that were used to finance purchases of heating and air conditioning units sold by a third-party air conditioning firm to Spanish-speaking residents in three states. Installation and operations of the units were problematic. The bank, through its third-party vendor, provided faulty disclosures and its remediation program was further flawed. Pursuant to an agreement with the OCC, the bank is providing restitution to affected customers.

### **Early Intervention**

The OCC continued to take an aggressive, proactive approach to supervising problem banks, ensuring prompt corrective action, early intervention, and least-cost resolution. To minimize losses to the FDIC bank insurance fund, the OCC used a program of structured early intervention and resolution strategies for banks that were: being rehabilitated and returned to district supervision; going through voluntary liquidation; being sold or merged; or closed. In those circumstances, OCC orders can require the bank to submit a plan to sell, merge, or liquidate at no loss or cost to the bank insurance fund, should certain triggering events occur affecting the bank’s condition.

In proactively supervising problem banks, the OCC took timely and responsible action on banks that became critically undercapitalized. The OCC also worked diligently to rehabilitate problem banks identified at the end of FY 2002. Of the 118 institutions with a CAMELS rating of 3, 4 or 5 on September 30, 2002, 38 had improved CAMELS ratings by fiscal year-end. Sluggish economic conditions influenced the pace of rehabilitation efforts during FY 2003. As a result, the OCC achieved a 32 percent rehabilitation rate rather than the performance target of 40 percent. The results of the OCC’s performance on the enforcement related measures are presented in Table 5.

**Table 5: Enforcing Performance Measures, FY 2003**

<b>Performance Measures</b>	<b>Target</b>	<b>Actual</b>
Percentage of critically undercapitalized banks on which responsible action is taken within 90 calendar days after they become critically undercapitalized	100%	100%
Rehabilitated problem national banks as a percentage of the prior fiscal year-end’s problem national banks (CAMELS 3, 4 or 5)	40%	<b>32%</b>



### ***Anti-Money Laundering***

The OCC continued to ensure that national banks and their institution-affiliated parties comply with federal anti-money laundering provisions. Cases in FY 2003 included restrictions on a bank's acceptance of cash payments on private label credit cards, as well as improvements to BSA policies and procedures.

### ***Credit Card Bank Supervision***

The OCC further developed and used new legal tools in FY 2003 to address supervisory concerns relating to CEBA credit card banks. Those tools include Operating Agreements, Liquidity Reserve Deposit Accounts (LRDAs), and Capital Assurance and Liquidity Maintenance Agreements (CALMAs). Operating agreements can be used in a pending corporate application by a bank to address specific areas of supervisory concern. For example, banks can be required to achieve capital levels that exceed regulatory minimums; maintain sufficient liquid assets, as defined by the operating agreement, to meet the bank's daily liquidity needs; or establish and maintain a LRDA at a third-party depository institution or Federal Reserve Bank. CALMAs are agreements entered into between the bank and its parent requiring the parent to provide capital and liquidity support to the bank.

### ***Actions to Combat Insider Abuse***

The OCC initiated and litigated enforcement actions against bank insiders and other institution-affiliated parties who engaged in unsafe or unsound practices, unlawful conduct, or breaches of duty. The agency acted when such practices, conduct, or breaches could have caused or did cause harm to a national bank, or other banks, or resulted in financial gain or other benefit for the insider. Several cases resulted in prohibitions, CMPs, restitution, or other personal cease-and-desist orders.

### ***Identity Theft and Computer Intrusion***

The OCC enhanced surveillance and enforcement activities involving issues of special concern to the national banking system, such as identity theft and computer intrusion. The OCC detected several cases of theft, misuse, and compromise of customer data, which resulted in prohibition, cease-and-desist, and CMP orders.

### **Ensuring Fair Access and Fair Treatment**

Activities in this subprogram include:

- Reviewing issues related to fair access to financial services and fair treatment of bank customers.
- Educating community and consumer organizations and facilitating their interactions with the OCC.

- Conducting outreach to national banks to assist them in meeting their obligations under the CRA rules.
- Meeting with individuals and groups protesting banks corporate applications.
- Reviewing or approving individual bank community development activities.
- Conducting risk-based fair lending examinations.

The OCC’s efforts to ensure fair access and fair treatment focused on integrating compliance risk supervision into the on-going supervision activities for national banks.

Overall, consumer compliance ratings for national banks remained at a high level during FY 2003. The OCC met or exceeded all of its FY 2003 performance targets for ensuring fair access and fair treatment of bank customers as depicted in Table 6.

**Table 6: Ensuring Fair Access and Fair Treatment Performance Measures, FY 2003**

<b>Performance Measures</b>	<b>Target</b>	<b>Actual</b>
Percentage of national banks with consumer compliance rating of 1 or 2	94%	<b>96%</b>
Percentage of community banks that are within one year of their first large bank Community Reinvestment Act examinations in which the OCC offers to provide consultation on community development opportunities	100%	100%
Percentage of consumer complaints closed within 60 calendar days of receipt	80%	87%

### ***Community Affairs***

The OCC made consultative offers in FY 2003 to all banks that were within one year of their first large bank CRA examination. The OCC’s Community Affairs Department staff conducted 200 bank consultations during FY 2003. In addition, the OCC met with community and consumer organizations, as well as a national civil rights organization, on policy matters related to predatory lending, payday lending, consumer protection, the USA PATRIOT Act, CRA changes, financial literacy, and other consumer issues. These meetings provided the OCC with information about the challenges and opportunities for increased access to financial services for consumers in disadvantaged communities.

## **Consumer Complaints**

The OCC's CAG reviews and processes complaints from customers of national banks. The OCC maintains a call center with trained compliance professionals to deliver responsive customer service. The OCC's philosophy is to resolve cases on the first contact, when possible. During FY 2003, the OCC received more than 80,000 calls, opened over 75,000 consumer complaint cases, and closed over 69,000 cases. The OCC closed 87 percent of consumer complaint cases within 60 calendar days.

## **CHARTER PROGRAM**

The charter program involves activities related to the chartering of national banks as well as the evaluation of the permissibility of structures and activities of national banks and their subsidiaries. This includes the review and approval of new national bank charters, federal branches and agencies<sup>4</sup>, mergers, acquisitions, conversions, business combinations, corporate reorganizations, changes in control, operating subsidiaries, branches, relocations, and subordinated debt issues. The charter process incorporates conditions and agreements as needed to support the safe and sound operation of the resulting entities.

For FY 2003, the OCC devoted 75 FTEs or three percent of total FTEs, to the charter program. The cost of the charter program was \$11.6 million in FY 2003. The OCC exceeded all of its FY 2003 performance targets and customer service standards for its licensing operations. The customer service results were based on 708 licensing surveys completed by banks during the year, which was a 43 percent response rate. The survey is based on a five-point scale, in which 1 indicates outstanding and 5 indicates significantly deficient. The FY 2003 licensing and customer service performance measures and results are presented in Table 7.

**Table 7: Licensing and Customer Service Performance Measures, FY 2003**

<b>Performance Measures</b>	<b>Target</b>	<b>Actual</b>
Percentage of licensing applications filed electronically	Baseline	8%
Percentage of licensing applications completed within established time frames	95%	97%
Average survey rating of OCC's timeliness on licensing applications	≤ 1.5	1.16
Average survey rating of the knowledge of OCC's licensing staff	≤ 1.5	1.14
Average survey rating of the professionalism of OCC's licensing staff	≤ 1.5	1.09
Average survey rating of the appropriateness of OCC's filing location and contact person for licensing services	≤ 1.5	1.23
Average survey rating of the overall licensing services provided by OCC	≤ 1.5	1.14

<sup>4</sup> Federal branches and agencies are branches and agencies licensed by the OCC and operated by foreign banking organizations. Federal agencies are offices that engage in the business of banking, but do not accept deposits or exercise fiduciary powers.

## Licensing Decisions

A responsive and efficient licensing operation is essential to meet the needs of banks that are part of, or seek to become part of, the national banking system. The OCC received 2,160 applications and 109 After-the-Fact notices during FY 2003. Table 8 shows the corporate applications received in FYs 2002 and 2003. Corporate applications increased by almost 400 (22 percent) over FY 2002. Of the 1,918 decisions issued on applications during FY 2003, 97 percent were completed within the established time frames, a small increase over FY 2002. Table 9 shows the timeliness of the OCC's actions by type of application for FYs 2002 and 2003. The OCC met its goal while providing a consistently high level of services as rated by applicants. The OCC's consistently high performance in providing licensing services for the last five years is exhibited in Figure 2.

**Table 8: Corporate Application Activity, FY 2002 and 2003**

	Applications Received		FY 2003 Decisions			
			Approved	Conditionally Approved <sup>4</sup>	Denied	Total
	FY 2002	FY 2003				
Branches	966	1,439	1,309	4	0	1,313
Capital / sub debt	148	119	86	6	1	93
Change in Bank Control	12	16	9	0	1	10
Charters	29	29	1	13	1	15
Conversions <sup>1</sup>	21	19	14	4	0	18
Federal Branches	4	4	0	5	0	5
Fiduciary Powers	39	37	10	2	0	12
Mergers <sup>2</sup>	84	61	65	7	0	72
Relocations	226	236	229	1	0	230
Reorganizations	128	115	94	6	0	100
Stock appraisals	1	0	0	0	0	0
Subsidiaries <sup>3</sup>	112	85	43	7	0	50
<b>Total</b>	<b>1,770</b>	<b>2,160</b>	<b>1,860</b>	<b>55</b>	<b>3</b>	<b>1,918</b>

<sup>1</sup> Conversions are conversions to national bank charters.

<sup>2</sup> Mergers include failure transactions when the national bank is the resulting institution.

<sup>3</sup> This count does not include 111 After-the-Fact notices received in FY 2002 and 109 After-the-Fact notices received in FY 2003.

<sup>4</sup> 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 9: OCC Licensing Actions and Timeliness, FY 2002 and 2003**

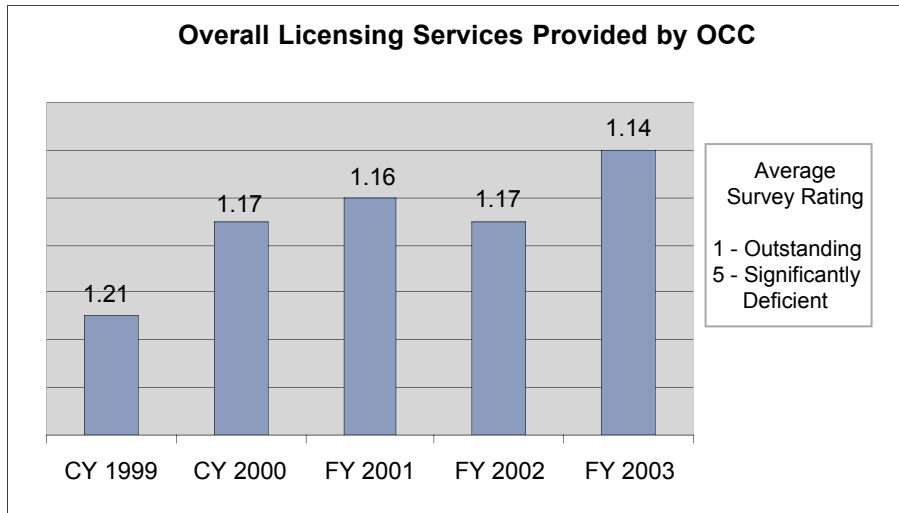
		FY 2002			FY 2003		
		Number of Decisions	Within Target		Number of Decisions	Within Target	
Application Type	Target time frames in days <sup>1</sup>		Number	%		Number	Number
Branches	45 / 60	895	875	97.8%	1,313	1,285	97.9%
Capital / sub debt	30 / 45	91	84	92.3%	93	89	95.7%
Change in Bank Control	NA / 60	12	12	100.0%	10	10	100.0%
Charters <sup>2</sup>		30	19	63.3%	15	8	53.3%
Conversions	30 / 90	18	11	61.1%	18	13	72.2%
Federal Branches	NA / 120	0	0	N/A	5	5	100.0%
Fiduciary Powers	30 / 45	13	13	100.0%	12	12	100.0%
Mergers	45 / 60	77	70	90.9%	72	62	86.1%
Relocations	45 / 60	216	214	99.1%	230	227	98.7%
Reorganizations	45 / 60	118	110	93.2%	100	92	92.0%
Stock appraisals	NA / 90	2	2	100.0%	0	0	N/A
Subsidiaries	30 / 60	82	74	90.2%	50	50	100.0%
Total		1,554	1,484	95.5%	1,918	1,853	96.6%

Note: Most decisions (96 percent in 2002 and 97 percent 2003) were decided in the district offices, International Banking and Finance, and Large Bank Licensing under delegated authority. Decisions include approvals, conditional approvals, and denials.

<sup>1</sup> 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.

<sup>2</sup> 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.

**Figure 2: Average Survey Rating on Licensing Services, CY 1999—FY 2003**



### ***Electronic Filing of Applications and Notices***

In March 2003, the OCC implemented a Web-based application, e-Corp, to allow national banks to file applications and notices electronically. During 2003, branch and relocation applications and five types of After-the-Fact notices were made available for all national banks on-line through National BankNet (the OCC's secure extranet site for national banks). The OCC continues to develop e-Corp applications and notices. It is anticipated that 90 percent of applications and 70 percent of notices will be available for electronic filing by the end of FY 2004. During FY 2003, the OCC received 8 percent of applications and notices electronically. The goal is to have 15 percent filed electronically in FY 2004, and to increase that goal annually as national banks develop the processes and ability to file electronically.

### ***Other Licensing Accomplishments***

The OCC publishes the 24-booklet *Comptroller's Licensing Manual* electronically. During FY 2003, several *Manual* booklets were revised and posted to the OCC's Web site and made available on compact disc (CD) for examiners and the public. In addition, the OCC issued expanded guidance on insider compensation for new bank charters. This guidance reminds bank organizers that stock benefit or compensation plans should serve the best interests of the bank and be commensurate with the services that an insider provides.

### ***Change in Bank Control***

The OCC's objective in administering the Change in Bank Control Act (CBCA) is to enhance and maintain public confidence in the national banking system by preventing identifiable adverse effects resulting from anti-competitive combinations or inadequate financial support and unsuitable management in national banks. The OCC reviews each CBCA notice and disapproves transactions that could have serious harmful effects.

During FY 2003, the OCC changed its CBCA notice procedure to review and determine whether the CBCA standards warrant a CBCA filer to execute an enforceable agreement with the OCC. In certain circumstances, the OCC may require an agreement that imposes substantive requirements equivalent to conditions and pre-opening requirements that apply to a de novo charter. When the notice raises fundamental supervisory or other issues that cannot be mitigated through agreements, the OCC will disapprove the proposal.

The OCC's CBCA activity is reflected in Table 10. The OCC received 16 CBCA notices in FY 2003. During this period, the OCC acted on 10 notices, one of which was disapproved.

**Table 10: Change in Bank Control Act,<sup>1</sup> 1988–9/30/2003**

Year	Received	Acted On	Not Disapproved	Disapproved	Withdrawn
2003*	16	10	9	1	0
2002	10	10	9	1	0
2001	18	17	17	0	0
2000	16	9	8	1	3
1999	13	13	13	0	1
1998	17	12	11	1	5
1997	24	24	24	0	0
1996	17	13	13	0	2
1995	15	16	16	0	0
1994	15	16	15	1	0
1993	28	26	21	5	4
1992	30	25	21	4	4
1991	20	12	6	6	3
1990	31	37	32	5	5
1989	55	51	48	3	4
1988	45	38	34	4	4

<sup>1</sup> Notices processed with disposition.

\* Fiscal Year

### ***Community Reinvestment Act***

Consistent with 12 CFR 5, the OCC’s procedures for handling CRA issues in applications, including how adverse comments from the public would be treated, are detailed in the “Public Notice and Comments” booklet (February 2003) in the *Manual*.

During FY 2003, the OCC received adverse comments from the public on seven CRA-covered applications. The OCC also reviewed and publicly addressed CRA issues raised in one other application. The decisions on applications presenting CRA issues, listed in Table 11, were published in the OCC’s monthly *Interpretations and Actions* and are available on the OCC’s Web site.



**Table 11: List of Applications Presenting CRA Issues Decided, FY 2003**

<b>Bank, City, State</b>	<b>Interpretations and Actions</b>	<b>Document Number</b>
U.S. Bank National Association, Cincinnati, OH	November 2002	CRA Decision No. 112
The Baraboo National Bank, Baraboo, WI	November 2002	CRA Decision No. 113
Banknorth, National Association, Portland, ME	December 2002	CRA Decision No. 114
Charles Schwab Bank, National Association, Reno, NV	February 2003	Conditional Approval No. 577
First National Bank & Trust Company, Beloit, WI	March 2003	CRA Decision No. 115
Household Bank (SB) National Association, Las Vegas, NV	April 2003	Corporate Decision No. 2003-2
Trustmark National Bank, Jackson, MS	September 2003	CRA Decision No. 116

## REGULATE PROGRAM

The regulate program establishes regulations, policies, operating guidance, and interpretations of general applicability to national banks. These regulations, policies, and interpretations may set systemwide standards, define acceptable banking practices, provide guidance on risks and responsibilities facing national banks, or prohibit (or restrict) banking practices deemed to be imprudent or unsafe. This program also includes the establishment of examination policies, handbooks, and interpretations for examiners, as well as representing and defending the OCC's regulatory authorities and interpretations in administrative, judicial, and congressional hearings.

The OCC devoted 173 FTEs or six percent of total FTEs, to the regulate program for FY 2003. The cost of the regulate program was \$25.9 million in FY 2003. The OCC issued 87 percent of legal opinions within the established time frames, exceeding the FY 2003 goal of 85 percent.

The OCC issued three final rules, one advanced notice of proposed rulemaking, and seven notices of proposed rulemaking in FY 2003. Some of the most significant rules included:

- *Customer Identification Programs for Banks, Savings Associations, and Credit Unions (31 CFR 103 and 12 CFR 21)*. 68 Fed. Reg. 25090 (May 9, 2003). This joint interagency rule implements section 326 of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001. It contains minimum standards that financial institutions must implement: 1) to verify the identity of any person seeking to open an account; 2) to maintain records of the information used to verify the person's identity; and 3) to determine whether the person

appears on any lists of known or suspected terrorists or terrorist organizations provided to the financial institution by any government agency.

- *Community and Economic Development Entities, Community Development Projects and Other Public Welfare Investments (12 CFR 24)*. 68 Fed. Reg. 48771 (August 15, 2003). The OCC published a final rule amending part 24, the regulation governing national bank investments that are designed primarily to promote the public welfare. The final rule updates the regulation to reflect additional types of permissible public welfare investment structures and incorporates other simplifications and clarifications.

### **Orders and Legal Opinions**

The OCC is empowered to issue orders that have the force and effect of law under specific circumstances. The OCC also issues legal opinions to requesting national banks. Orders and legal opinions issued during FY 2003 included:

- *Determination and Order Preempting the Georgia Fair Lending Act (GFLA)*. In response to a request from National City Bank, National City Bank of Indiana, and their operating subsidiaries, the OCC concluded that the provisions of the GFLA affecting national banks' real estate lending are preempted by federal law and, accordingly, that the GFLA does not apply to National City or to any other national bank or national bank operating subsidiary that engages in real estate lending activities in Georgia. 68 Fed. Reg. 46264 (August 5, 2003).
- *National Banks' Authority to Engage in Multistate Fiduciary Operations*. The OCC opined that: 1) a national bank's trust powers are governed by federal law and derive from 12 USC 92a and part 9 of the OCC's regulations; 2) a national bank looks to the law of the state in which it acts in a fiduciary capacity to determine which capacities are permissible for the bank to act in for customers in that state as well as in other states; and 3) a state's authority to regulate instrumentalities of its own government does not affect the fiduciary authorities granted to national banks as a matter of federal law. Interpretive Letter 973 (August 12, 2003).
- *Electricity Derivatives*. The OCC decided that a national bank may expand its financial intermediation business to include customer-driven, electricity derivative transactions that involve transitory title transfers as an activity incidental to banking, provided that the bank has established, to the satisfaction of the OCC, an appropriate risk measurement and management process. Interpretive Letter 962 (April 21, 2003).

- *Hedging DPC Stock.* The OCC judged that a national bank may legally purchase and hold options on the shares of stock of a company when the bank has acquired shares of that company in satisfaction of debts previously contracted. The bank would hold the options to hedge the market risk associated with changes in the value of the DPC shares. Interpretive Letter 961 (March 17, 2003).
- *Risk Management Activities.* The OCC opined that national banks may provide risk management services as a permissible part of their insurance agency operations. Interpretive Letter 967 (June 16, 2003).

### ***Supervisory Guidance, Policies, and Examination Handbooks***

The OCC issued during FY 2003 supervisory guidance, policies, and examination handbooks on various issues and risks affecting national banks.

- *Supervisory Advisories and Guidelines to National Banks to Guard Against Abusive Lending Practices.* The OCC issued two releases establishing nationwide guidance to guard against predatory lending practices among institutions it supervises. The releases are: OCC AL 2003-02, “Guidelines for National Banks to Guard Against Predatory and Abusive Lending Practices,” and OCC AL 2003-3, “Avoiding Predatory and Abusive Lending Practices in Brokered and Purchased Loans.”
- *Revised Community Bank Supervision Handbook.* The OCC published in July 2003 a revised “Community Bank Supervision” booklet in the *Comptroller’s Handbook* series. The revised handbook enhances the OCC’s risk-based supervision process by integrating consumer compliance, asset management, and bank technology assessments into the safety and soundness examination process.
- *Revised Internal and External Audits Handbook.* This revised booklet in the *Comptroller’s Handbook* series was published in April 2003 to update and incorporate recent events and current directions for internal and external audits within the financial, audit, and regulatory industries. Specifically, the booklet discusses auditor independence issues raised by the Sarbanes-Oxley Act of 2002, implementing rules and regulations of the U.S. Securities and Exchange Commission (SEC), and the revised “Interagency Policy Statement on Internal Audit and Its Outsourcing.”

Other supervisory policy initiatives that were conducted during FY 2003 are discussed in the Partnership and Outreach section of this report.

## **Litigation Activities**

The OCC was a party to, or prepared in FY 2003 *amicus* briefs, in several cases relating to bank powers, federal preemption of state law, the OCC's exclusive visitorial authority over national banks, enforcement actions, problem banks, and Title VII actions.

- *Doctrine of complete preemption applied to usury suits brought in state court.* Reversing the 11th Circuit, the Supreme Court, in a 7-2 decision, held that a usury case brought against a national bank in state court could be removed to federal court under the doctrine of complete preemption. *Beneficial National Bank v. Anderson*, 123 S.Ct. 2058 (2003).
- *OCC's exclusive visitorial powers over national bank operating subsidiaries.* In several recent decisions, a U.S. District Court held that only the OCC may exercise visitorial authority over the operating subsidiary of a national bank, and that the federal law preempts state law imposing certain restrictions on receipt of interest by home mortgage lenders. *Wells Fargo, N.A. v. Boutris*, 252 F.Supp.2d 1065 (E.D. Cal. 2003); *National City Bank of Indiana v. Boutris*, 2003 WL 21536818 (E.D. Cal. 2003).
- *State insurance sales law under the Gramm-Leach-Bliley Act (GLBA).* Separate petitions filed by state authorities in West Virginia and Massachusetts sought review of an OCC Preemption Determination and an OCC preemption letter. In the West Virginia case in the Fourth Circuit, a majority of the panel held that the OCC had implicit authority under the GLBA to preempt state statutes, and that the state insurance statutes in question were preempted by the National Bank Act. The panel in the Massachusetts case in the First Circuit held that the OCC's opinion letter did not give rise to a regulatory conflict. *Cline v. Hawke*, 51 Fed. Appx. 392 (4<sup>th</sup> Cir. 2002), and *Bowler v. Hawke*, 320 F. 3d 59 (1st Cir. 2003).
- *"On us" check cashing fees.* National banks may charge a non-accountholder a convenience fee for using a bank teller to cash an "on us" check. A U.S. District Court held that the National Bank Act preempts state law prohibiting the charging of fees for cashing on-us checks. *Bank of America v. Sorrell*, 248 F. Supp.2d 1196 (ND Ga. 2002). Earlier, another U.S. District Court issued a similar ruling about a Texas state law prohibiting these fees, affirmed in the Fifth Circuit. *Wells Fargo v. James*, 184 F.Supp.2d 588 (W.D. Tex. 2002).
- *ATM fees.* Two national banks and a savings and loan association brought suit challenging municipal ordinances prohibiting banks from charging ATM fees to non-depositors. Ultimately, a panel of the U.S. Court of Appeals for the Ninth Circuit affirmed, holding that for national banks, the National Bank Act and the OCC's regulations preempted the ordinances. *Bank of America, et al. v. City and County of San Francisco*, 309 F. 3d 551 (9th Cir. 2002).

- *Mandatory disclosures to credit card holders.* A U.S. District Court held that the National Bank Act preempts California laws requiring compliance with certain combinations of warnings to credit card holders on the possible consequences of paying only the minimum amount each month. *American Bankers Association v. Lockyer*, 239 F. Supp.2d 1000. (E.D. Cal. 2002).
- *The Fair Credit Reporting Act (FCRA) preempts state laws that impose restrictions on information sharing with affiliates.* A U.S. District Court held that provisions of the FCRA preempt ordinances that impose restrictions on the sharing of confidential consumer information between financial institutions and their affiliates. *Bank of America v. Daly City*, Nos. C 02-4343 and C 02-943 (N.D. Cal. 2003).
- *Courts lack jurisdiction to compel the OCC to act in a particular manner regarding implementation of an enforcement action.* A U.S. District Court held that it lacked subject matter jurisdiction over a complaint by a national bank seeking to affect the OCC's implementation of an order in which it required the bank to obtain a \$78 million letter of credit as a source of funding for the purchase of credit card receivables, and granted the OCC's motion to dismiss. *Spiegel Holdings, Inc. v. OCC*, 2003 WL 21087707 (D. Or. 2003).

## ANALYZE RISK PROGRAM

This program consists of activities to identify, analyze, and respond to emerging systemic risks and trends that could affect an individual national bank or the entire national banking system. During FY 2003, the OCC devoted 153 FTEs or six percent of total FTEs to the analyze risk program. The cost of the analyze risk program was \$26.1 million in FY 2003.

The program's key objectives are the early identification of higher-risk institutions, activities, and trends and potential shocks to the system. Areas of analysis include: bank lending and credit risk; economic, finance, and core banking; industry studies; international bank supervision and regulations; emerging risks; evolving business practices and financial market issues; capital markets activities; and asset securitization.

Analytical tools and models were developed under this program to assist supervision in tailoring examination procedures to risk profiles and allocating resources accordingly. The OCC developed a LBCT for examiners during FY 2003 and coordinated many analyze risk program efforts through the District Risk Committees (DRCs) and National Risk Committee (NRC).

### **Large Bank Analytics**

The OCC developed the LBCT to assess the vulnerability of C&I, and CRE loans to adverse economic events, such as recessions. The LBCT provides OCC examiners with a profile of the bank's outlook in comparison to "consensus" and pessimistic 12-month projections of default rates and loss estimates. The OCC uses the LBCT to identify vulnerable industries and

metropolitan areas for possible increased supervisory attention. The OCC is leveraging this tool by applying the CRE results to mid-size banks. Further uses of this tool will be explored in FY 2004 as the OCC applies the implications of C&I and CRE vulnerability to the community bank market areas.

### ***Risk Committees***

The NRC identifies primary and emerging risks to the national banking system, stays abreast of evolving business practices and financial market issues, advises the OCC's executive committee of material risks facing the national banking system, and recommends OCC supervisory responses to the executive committee and OCC examiners. The DRCs operate in each district. The NRC is chaired by the deputy comptroller for Risk Evaluation. Its members include senior managers from key areas across the OCC as well as DRC chairpersons. The NRC identifies resource and training needs and provides specialized support, examiner guidance, and examiner training in such areas as bank technology, asset management, retail credit, compliance, mortgage banking, derivatives, and interest rate risk management. These efforts are undertaken to ensure consistent and efficient responses to emerging risk issues to preclude redundancies, to encourage the sharing of ideas throughout the OCC, and to serve as a resource to the DRCs.

## **PARTNERSHIP AND OUTREACH**

The OCC works with other regulators, industry, and community and consumer organizations to further the OCC's mission and to accomplish its strategic goals and objectives in an effective and efficient manner.

### ***Financial Regulators***

Primarily through the FFIEC, the OCC works closely with the other federal financial regulators (Board of Governors of the Federal Reserve System (FRB), FDIC, Office of Thrift Supervision (OTS), and National Credit Union Administration (NCUA)) to coordinate supervisory policies, regulations and regulatory reporting requirements, and examiner training on issues that cut across the banking system. These efforts reduce regulatory burden by promoting greater uniformity, consistency, and efficiency in the supervision of insured depository institutions.

The OCC also works with other state, federal, and international regulators and supervisors on matters of mutual interest.

The OCC has entered into information-sharing agreements with 48 state insurance departments and meets regularly with the National Association of Insurance Commissioners.

The OCC works closely with the SEC on various securities, brokerage, and accounting and disclosure issues and with the FTC on various consumer protection and privacy issues. In FY 2003, the OCC consulted with the SEC in connection with the SEC's revisions to its rules implementing the bank broker-dealer provisions of the GLBA, and in developing a process for information sharing among functional regulators of investment advisory activities, required by

the act. The OCC is a member of the Administration's Financial and Banking Infrastructure Information Committee (FBIIC) and is working with the Department of the Treasury to implement the President's anti-terrorist initiatives previously discussed under the supervise program.

On the international front, the OCC is participating in the Basel Committee on Banking Supervision's efforts to update and revise the Basel Capital Accord to make the capital standards required of internationally active banks more comprehensive, risk sensitive, and reflective of advances in banks' risk measurement and management practices (Basel II).

The OCC worked closely with other regulators during FY 2003 on projects to address emerging risks and issues facing the industry, reduce regulatory burden, and enhance regulatory efficiency. These efforts have included:

- *Revisions to Risk-Based Capital Standards.* The federal banking agencies (OCC, FDIC, the FRB, and OTS) issued for comment three documents that outline how Basel II might be implemented in the U.S.: an advanced notice of proposed rulemaking that outlines and seeks comment on the regulatory framework for implementing Basel II, and supervisory guidance for the advanced approaches for measuring and assigning capital for corporate credit risk and similar guidance for operational risk. In addition, the agencies held many outreach meetings with industry participants to discuss the proposed Basel II standards and participated in the Basel Committee's third quantitative impact study to assess the potential effects of the revised accord on capital levels across portfolios and institutions.
- *Initiatives to Strengthen Corporate Governance.* The federal banking agencies issued an updated Interagency Policy Statement on the Internal Audit Function and its Outsourcing to reflect provisions of the Sarbanes-Oxley Act and SEC rules on auditor independence. The revised policy statement also provides expanded discussion of the responsibilities of a bank's board of directors and senior management for internal audit and reiterates the need for banks to maintain strong systems of internal controls and high quality internal audit programs. The agencies issued joint final rules to strengthen their ability to address misconduct by accountants. The rules establish procedures for the agencies with good cause to remove, suspend, or bar an accountant or firm from performing audit and attestation services for insured depository institutions with assets of \$500 million or more.
- *Expanded Guidance on Technology-Related Risks.* The federal banking agencies have undertaken through the FFIEC a complete revision of the 1996 FFIEC Handbook on Information Systems. The 1996 handbook is being replaced by a series of 12, topical booklets addressing issues, such as business continuity planning, information security, and electronic banking. Six booklets were issued during FY 2003.

The agencies also published updated guidelines for bankers on the risks and risk management of Web linking activities and continue to coordinate with the FBIIC and other agencies to improve the reliability and security of the U.S. financial system. These efforts have included sponsoring critical financial institutions' access to the Telecommunications Service Priority Program that provides priority treatment for the restoration or provisioning of telecommunications services in emergencies. It also resulted in the joint publication by the OCC, FRB and SEC, of an interagency paper on Sound Practices to Strengthen the Resilience of the U.S. financial system. The paper identifies sound practices and steps to protect the U.S. financial system from the systemic effects of a wide-scale disruption.

- *Initiatives to Reduce Unnecessary Regulatory Burden and Enhance Efficiency.* The federal banking agencies and FFIEC began a multi-year project to undertake a review of their regulations to identify outdated, unnecessary, or burdensome regulatory requirements imposed on insured depository institutions. The first step of this project has been to categorize the agencies' regulations by type. Over the next three years, comment will be sought on each category to identify areas of the regulations that may be outdated, unnecessary, or unduly burdensome. This review will enable the industry and other interested parties to look at groups of related regulations (such as consumer protection) and comment on possibilities for streamlining.

The FFIEC also awarded a multi-year contract to build and operate a shared, central data repository for collecting, validating, storing, and distributing data collected under federal bank regulatory reporting requirements. The data repository will replace aging applications and databases related to the banking agencies' Call Report processing and will provide a state-of-the-art platform for expanded use by the FDIC, Federal Reserve, and OCC. Among the benefits of the new system will be enhanced data quality and expedited data sharing.

- *Joint Examination Programs.* The banking agencies continued during FY 2003 their joint supervisory programs, such as the shared examination programs, including the Shared National Credit (SNC) Program, the Interagency Country Exposure Review Committee, and the interagency examination program for multi-regional data processing servicers.

The interagency SNC program was implemented in 1977 to review and assess risk in the largest and most complex credits shared by three or more financial institutions. A SNC is defined as any loan or formal loan commitment extended to a borrower by a supervised institution or any of its subsidiaries and affiliates that aggregates \$20 million or more and is shared by three or more institutions



under a formal lending agreement. The program is governed by an interagency agreement between the Federal Reserve, FDIC, and OCC. The program was designed to provide uniformity and efficiency in analyzing and rating large, complex credits. The program benefits the regulatory agencies and the banks by: 1) eliminating the redundancy of reviewing the same credit in multiple institutions; 2) ensuring that credits are reviewed in a uniform and consistent manner; 3) maximizing resources; and 4) limiting disruptions to banks' operations. The FY 2003 SNC review covered 8,232 loan facilities with commitments totaling \$1.6 trillion.

- *Updated Supervisory Guidance.* The agencies issued supervisory guidance throughout the year to bankers on risks posed by bank activities and methods banks can use to manage those risks. In addition to the items previously discussed, interagency guidance was issued on:
  1. Sound account management, risk management, and loan loss allowance practices for credit card lending activities.
  2. Technical accounting issues for certain residual assets created in asset securitization activities.
  3. Sound risk management practices for mortgage banking activities.
  4. The Federal Reserve System's new discount window programs and the role such programs can play in banks' liquidity contingency plans.
- *Forms Development.* The OCC, FDIC, the Federal Reserve, and OTS jointly revised the "Interagency Biographical and Financial Report" form for proposed bank officers, directors, and principal shareholders, and the "Interagency Notice of Change in Control" form. The Change in Control form revisions incorporate the collection of information on affiliation with insurance companies or agencies. Those forms are expected to be used in FY 2004, pending Office of Management and Budget (OMB) clearance.

### ***Law Enforcement Authorities***

The OCC supports criminal law enforcement agencies by working closely with the interagency Bank Fraud Working Group, chaired by the Department of Justice, and serving as a member of the Attorney General's Council on White Collar Crime, Subcommittee on Identity Theft. At the request of law enforcement authorities, the OCC also provides its expertise and assistance to criminal investigations involving bank fraud and other white-collar crime. Additionally, the OCC continues to participate in a number of interagency groups focused on combating money laundering, including the Bank Secrecy Act Advisory Group.

## ***Industry and Community Outreach***

The OCC maintains a dialogue with key constituents that are affected by and interested in the OCC's mission. The Comptroller and senior management seek input and feedback on issues facing the banking industry through outreach meetings with industry and trade associations. "Meet the Comptroller" roundtables were creative responses to the need for continuing dialogue between bankers and senior OCC officials. The OCC participated in or conducted a variety of outreach activities during FY 2003. Specific outreach activities were discussed previously under Anti-Terrorist Financing Initiatives and under Community Affairs.

The OCC's outreach also included a series of telephone seminars for bankers. These seminars allowed bankers to listen to agency experts discuss their experiences and policy imperatives, and to interact with them during a question-and-answer session. Seminar topics included: Information Security Management for Community Banks, Rural Economic Development Lending Opportunities for Community Banks, and the USA PATRIOT Act and Its Impact on Sound Anti-Money-Laundering Programs. More than 23,000 listeners participated in these telephone seminars during the year.

The OCC also conducted workshops on *Understanding OCC's Risk Assessment Process*, for about 225 community bank directors. The goal was to enhance their understanding of risk-based supervision; increase familiarity with major risks in commercial banking; learn the types of questions to ask managers, auditors, and examiners; and review common ways to identify, measure, monitor, and control risk.

## **OCC'S NEXT STEPS**

The OCC will continue to monitor and evaluate risks to individual national banks and the national banking system and incorporate the results of these risk analyses into its supervision strategies. Key issues to be addressed by the OCC's supervision activities include: credit quality; adequacy of allowance for loan and lease losses; scrutiny of accounting practices; integrity of management information systems; off-balance sheet activities; funding issues; implementation of the revised Basel Capital Accord; and risks associated with managing third-party service providers.

The OCC plans to expand the e-Corp electronic filing application program by including additional corporate applications. Applications to be added in FY 2004 are capital, operating and financial subsidiaries, Part 24 Community Development Investment filings, and corporate reorganization applications (excluding those that must be notarized). The OCC also will initiate a development project to replace its outmoded mainframe system for reporting and tracking licensing applications, and to increase data warehousing capabilities.

The OCC also plans to work with other federal regulatory agencies to develop a streamlined deposit insurance and charter application form for bank holding companies to use to charter a new bank and an interagency “Branch Application” form. The OCC, the Federal Reserve, FDIC, and OTS will continue a review of their regulations, as required by the Economic Growth and Regulatory Paperwork Reduction Act of 1996. The FFIEC plans to publish six additional booklets as part of its update to the Information Technology Examination Handbook. The OCC published a number of FY 2004 proposals during the year that will result in further regulatory activity. Among the most significant are: risk-based capital guidelines implementing the new Basel Capital Accord; rules, policies and procedures affecting federal branches and agencies; updates and clarifications of bank reorganization into holding companies and mergers with affiliates, director terms, and OCC visitorial powers; clarification of types of state laws that are preempted and not preempted in the context of national bank lending, deposit-taking, and other activities; and guidance on bank response programs for unauthorized access to customer information.

In other developing areas, the OCC is preparing guidance that national banks may use to adopt limited liability governance provisions, and considering revisions of the GLBA privacy rules that would provide for short-form privacy notices to bank customers.

The OCC will perform quarterly reviews of licensing documentation quality in FY 2004 and will perform quality reviews of two major application areas: mergers and bank subsidiary filings. Reviews will continue to focus on identifying best practices, with the goal of enhancing written policies, procedures, and practices within the licensing function.

In FY 2004, the OCC plans to implement a structured system development life cycle (SDLC) methodology that will provide structure, guidelines, and a framework for all information technology projects. Additionally, the SDLC will integrate with the enterprise architecture by defining roles and responsibilities, and requiring development teams to work collaboratively with key business units’ representatives and information technology staff involved in planning, security, and infrastructure. The OCC also will complete requirements definition for the Web-Site Of The Future initiative.