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# Comptroller's Report of Operations—2001

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# Comptroller's Report of Operations—2001

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## ***Comptroller of the Currency***

The Office of the Comptroller of the Currency (OCC) is responsible for the licensing, regulation and supervision of all of the nation's federally chartered (national) banks. The OCC promotes a safe and sound banking system by requiring that national banks adhere to sound banking and management principles and that they comply with the law. The OCC's mission is carried out through a nationwide staff of bank examiners and other professional and support personnel who examine and supervise national banks and federally licensed branches and agencies of foreign banks. As of December 31, 2001, there were about 2,100 national banks and 52 federal branches and agencies, representing about 26 percent of the number of all insured commercial banks in the United States and 55 percent of the total assets of the banking system.

The Comptroller also serves as a director of the Federal Deposit Insurance Corporation, the Federal Financial Institutions Examination Council, and the Neighborhood Reinvestment Corporation.

The Comptroller's personal staff, headed by the chief of staff, directs, coordinates, and manages the day-to-day operations of the Comptroller's office; oversees projects of special interest to the Comptroller; and serves as liaison with OCC staff and the staffs of other regulatory agencies.

## ***The Executive Committee***

The OCC's executive committee provides advice and counsel to the Comptroller in managing the operations of the agency, and the committee approves policy and project initiatives and the associated use of agency resources. The executive committee is comprised of the following:

- the Comptroller
- the first senior deputy comptroller and chief counsel
- the chief of staff and the senior deputy comptroller for Public Affairs (acting)
- the senior deputy comptroller and chief national bank examiner

- the senior deputy comptroller for International and Economic Affairs
- the senior deputy comptroller for Large Bank Supervision
- the senior deputy comptroller for Management and chief financial officer
- the senior deputy comptroller for Mid-Size/Community Bank Supervision
- the chief information officer
- the ombudsman

## **First Senior Deputy Comptroller and Chief Counsel**

In 2001, the first senior deputy comptroller and chief counsel (chief counsel) continued the function of advising the Comptroller on legal matters arising from the administration of laws, rulings, and regulations governing national banks. The chief counsel was responsible for directing the legal functions in and for the OCC, including writing and interpreting legislation; responding to requests for interpretations of statutes, regulations, and rulings; defending the Comptroller's actions challenged in administrative and judicial proceedings; supporting the bank supervisory efforts of the office; and representing the OCC in all legal matters. These duties were carried out through two deputy chief counsels and two assistant chief counsels. The deputy chief counsels were responsible for overseeing Administrative and Internal Law, Bank Activities and Structure, Community and Consumer Law, Enforcement and Compliance, Legislative and Regulatory Activities, Litigation, Securities and Corporate Practices, and the six district counsels.

The chief counsel in 2001 advised the Comptroller on policy matters involving corporate activities and had responsibility for overseeing the OCC's licensing functions. The Comptroller delegated authority for deciding all corporate applications, including charters, mergers and acquisitions, conversions, and operating subsidiaries of national banks, to the chief counsel. These responsibilities were carried out through the deputy comptroller for Licensing, the Licensing Operations division, with licensing units in each of the OCC's six district offices, and the Licensing Policy and Systems division.

The chief counsel also advised the Comptroller on matters involving community affairs and had responsibility for overseeing the OCC's community affairs activities, including approval of national bank community development investments. These responsibilities were carried out through the deputy comptroller for Community Affairs, the Community Development division, the District Community Affairs division, and the Outreach and Information Management division.

## **Chief of Staff and Senior Deputy Comptroller for Public Affairs (Acting)**

Along with his duties in direct support of the Comptroller, the chief of staff is responsible for overseeing the Program and Management Accountability and the Workforce Effectiveness and Alternative Resolutions divisions.

In addition the chief of staff serves as the acting senior deputy comptroller for Public Affairs, who is responsible for overseeing internal and external communications activities. The senior deputy comptroller is charged with bringing an external perspective to agency issues and works closely with the senior agency officials to identify issues and activities that need to be communicated inside and outside the agency. In addition, the senior deputy comptroller provides advice and counsel to the Comptroller and executive committee on media relations and communications activities and policies.

Specific responsibilities of the senior deputy comptroller for Public Affairs include the following: overseeing regular outreach efforts to foster and develop relationships with the constituencies involved in banking; tracking legislative developments and responding to congressional inquiries and requests for support; directing the preparation and dissemination of information to help bankers, examiners, community organizations, and the general public understand the national banking system, the OCC's supervisory activities, and related issues; ensuring fair and easy access to the agency's public information; coordinating internal communications; and managing news media relations for the agency.

## **Senior Deputy Comptroller and Chief National Bank Examiner**

The senior deputy comptroller and chief national bank examiner is responsible for formulating and disseminating the OCC's supervision policies to promote national banks' safety and soundness and compliance with laws and

regulations. The department issues policy, guidance, and examination procedures related to national banks' asset management, bank technology, capital markets, credit, and consumer and community compliance activities. The department also assists in providing specialized training and examination support to OCC examiners. The senior deputy and chief national bank examiner is responsible for coordinating OCC participation in Federal Financial Institutions Examination Council (FFIEC) activities and its task forces.

## **Senior Deputy Comptroller for International and Economic Affairs**

The senior deputy comptroller for International and Economic Affairs is responsible for managing the agency's economic research and analysis program; providing policy advice on risks in the banking industry, bank capital requirements, and international banking and financial matters; and formulating policies and procedures for the supervision and examination of federal branches and agencies of foreign banks. The department also provides expert advice to examiners in the assessment of banks' risk measurement methods. These activities are carried out through the International Banking and Finance, Financial Analysis, Capital Policy, Risk Analysis, and Policy Analysis divisions.

## **Senior Deputy Comptroller for Large Bank Supervision**

The senior bank comptroller for Large Bank Supervision is responsible for examinations and other supervision activities in the largest national banks and in the OCC's London office. This position was established effective October 2001. Specific responsibilities of the senior deputy comptroller for Large Bank Supervision include directing programs for the examination and regulation of large national banks to promote the continuing existence of a safe, sound, and competitive national banking system. The senior bank comptroller for Large Bank Supervision is responsible for directing the examination, supervision, and analysis of the largest national banks, which account for about 82 percent of the nation's national banking assets.

## **Senior Deputy Comptroller for Management and Chief Financial Officer**

The senior deputy comptroller (SDC) for Management and chief financial officer is responsible for efficiently and ef-

fectively deploying the management functions of the OCC. In this capacity the SDC is assisted by the deputy comptrollers that oversee the functional areas of Workforce Effectiveness, Management Improvement and Acquisitions Services, Financial Management, and Continuing Education and Resource Alternatives divisions.

In 2001, the SDC focused on continuing efforts to strengthen the OCC's financial management and internal controls and modernize OCC's financial management and related systems.

## **Senior Deputy Comptroller for Mid-Size/Community Bank Supervision**

The senior deputy comptroller for Mid-Size/Community Bank Supervision is responsible for examinations and other supervision activities in the OCC's six districts and the Supervision Operations and the Special Supervision/Fraud departments. The senior deputy comptroller for Mid-Size/Community Bank Supervision is also a member of the OCC's Committee on Bank Supervision, which oversees the Compliance and Technology department. Specific responsibilities of the senior deputy comptroller for Mid-Size/Community Bank Supervision include directing programs for the examination and regulation of nationally chartered mid size banks, credit card banks, community banks, and federal branches of foreign banks to promote the continuing existence of a safe, sound, and competitive national banking system. The senior deputy comptroller for Mid-Size/Community Bank Supervision was responsible during 2001 for directing the examination, supervision, and analysis of about 2,100 national banks and about 52 federal branches and agencies of foreign banks

in the United States accounting for about 56 percent of the nation's banking assets. Supervision of national trust companies, bank data processing servicers, and bank data software vendors is also the responsibility of the senior deputy comptroller for Mid-Size/Community Bank Supervision.

## **Chief Information Officer**

As the senior Information Technology (IT) official, the chief information officer (CIO) is the advisor to the OCC executive staff regarding IT investments and solutions, and their impact on business programs and goals. The CIO represents the OCC at the Department of the Treasury on all IT issues. The IT staff worked with other Treasury bureaus to provide technological and financial advantages on technology procurements for the OCC. The CIO has also maintained partnerships with other federal financial regulators to ensure OCC's technology architecture continued to support consistency and best practices in infrastructure, customer service, and systems development.

## **Ombudsman**

The ombudsman is responsible for overseeing the national bank appeals process and the Customer Assistance Group. The national bank appeals process allows national banks to seek further review of disputes that the bank and the supervisory office cannot resolve through informal discussions. The Customer Assistance Group reviews and processes complaints received from customers of national banks. The ombudsman also acts as liaison between the OCC and anyone with unresolved problems in dealing with the OCC regarding its regulatory activities.

# ***Office of the First Senior Deputy Comptroller and Chief Counsel***

In 2001, the first senior deputy comptroller and chief counsel (chief counsel) continued the function of advising the Comptroller on legal matters arising from the administration of laws, rulings, and regulations governing national banks. The chief counsel was responsible for directing the legal functions in and for the OCC, including writing and interpreting legislation; responding to requests for interpretations of statutes, regulations, and rulings; defending the Comptroller's actions challenged in administrative and judicial proceedings; supporting the bank supervisory efforts of the office; and representing the OCC in all legal matters. These duties were carried out through two deputy chief counsels and two assistant chief counsels. The deputy chief counsels were responsible for overseeing Administrative and Internal Law, Bank Activities and Structure, Community and Consumer Law, Enforcement and Compliance, Legislative and Regulatory Activities, Litigation, Securities and Corporate Practices, and the six district counsels.

The chief counsel in 2001 advised the Comptroller on policy matters involving corporate activities and had responsibility for overseeing the OCC's licensing functions. The Comptroller delegated authority for deciding all corporate applications, including charters, mergers and acquisitions, conversions, and operating subsidiaries of national banks, to the chief counsel. These responsibilities were carried out through the deputy comptroller for Licensing, the Licensing Operations division, with licensing units in each of the OCC's six district offices, and the Licensing Policy and Systems division.

The chief counsel also advised the Comptroller on matters involving community affairs and had responsibility for overseeing the OCC's community affairs activities, including approval of national bank community development investments. These responsibilities were carried out through the deputy comptroller for Community Affairs, the Community Development division, the District Community Affairs division, and the Outreach and Information Management division.

## **Assistant Chief Counsels**

Two assistant chief counsels are responsible for providing legal counsel and policy advice in the critical areas of electronic banking and privacy.

The assistant chief counsel responsible for electronic banking issues provided counsel on proposed bank activities including the establishment of Internet banks, digital certificates, electronically based finder activities, electronic bill presentment and payment, Web site development, electronic safekeeping, and data processing services; assisted in speech and article preparation on electronic banking topics for the Comptroller and chief counsel; and participated in the establishment and issuance of regulations and supervisory policy related to Internet banking and e-commerce. The assistant chief counsel also spoke at various seminars, conferences and courses on electronic banking issues.

The assistant chief counsel responsible for privacy issues provided counsel on legal and operational issues relating to the privacy rules implementing Title V of the Gramm-Leach-Bliley Act, as well as provisions of the Fair Credit Reporting Act. The assistant chief counsel conducted training sessions for examiners on the privacy rules and participated in a number of educational outreach activities regarding the privacy rules, including an OCC telephone seminar for community banks which had an audience of over 3,000 people. The assistant chief counsel represented the agency in regular interagency privacy meetings to ensure consistent interpretations of the privacy rules across the agencies. This effort resulted in the issuance, on an interagency basis, of frequently asked questions, as well as a separate OCC small bank compliance guide that the assistant chief counsel prepared. The assistant chief counsel represented the OCC in a widely attended interagency workshop on providing effective privacy notices. The assistant chief counsel also spoke at numerous seminars, conferences, and courses on financial privacy.

## **Law Department**

### **1. Administrative and Internal Law Division**

The Administrative and Internal Law (AIL) division is responsible for providing legal advice and service on issues and matters relating to the OCC's operations as a federal agency. The division is also responsible for assisting the chief counsel in various aspects of the law department's internal operations.

AIL has specialized experience in a number of legal areas associated with the OCC's administrative functions, including equal employment opportunity, compensation and benefits, personnel matters, labor relations, acquisitions and procurement, leasing, licensing agreements, finance,



the Freedom of Information Act, the Privacy Act of 1974, information, and ethics. ALL provides legal advice in these areas to units throughout the OCC. The division, in conjunction with the district legal staffs, also administers the OCC's ethics program and the law department's attorney recruiting program. Among other things in 2001, the division revised the OCC's Privacy Act notices, made presentations on the Americans with Disabilities Act, drafted a manual on debt collection, and produced an outline guiding the development of web based electronic interactions with national banks.

## **2. Bank Activities and Structure Division**

The Bank Activities and Structure division (BAS) provides legal advice on corporate structure matters such as chartering national banks, branching, main office relocations and designations, operating subsidiaries, financial subsidiaries, and investments in other entities, mergers and acquisitions, interstate operations, management interlocks, and changes in bank control. The division also advises on issues relating to general bank powers and activities, electronic banking, special purpose banks, lending limits, leasing activities, loans to insiders, affiliate transactions, bank premises, other real estate owned, and problem banks. These questions arise under such laws as the National Bank Act, Gramm-Leach-Bliley Act, Riegle-Neal Interstate Banking and Branching Efficiency Act, Federal Reserve Act, Federal Deposit Insurance Act, FDIC Improvement Act, Bank Holding Company Act, Bank Merger Act, Change in Bank Control Act, Depository Institution Management Interlocks Act, and the Financial Institutions Reform, Recovery, and Enforcement Act.

BAS provides legal advice and service on these topics to other units within the OCC, such as Licensing, Large Bank Supervision, Bank Supervision Policy, International Banking and Finance, and Special Supervision/Fraud. As well, it provides advisory services to national banks, the banking bar, other banking regulators, and the public. In developing its legal positions, the division works closely with other law department units, including the OCC's district legal staffs.

Highlights of BAS work in 2001 included drafting comments to the Federal Reserve on its proposed Regulation W governing affiliate transactions; advising Licensing Operations on the first transactions undertaken under the section 1206 of the American Home Ownership and Economic Opportunity Act of 2000, 12 USC 215a-3; providing legal advice on the restructuring of a large bank holding company's credit card operations; and advising on the acquisition of a national bank by a consortium of Native American tribes, the first bank to be owned in this manner.

Legal opinions were issued on diverse topics including finder activities, lending limits, the Uniform Commercial Code, and bank-owned life insurance. In addition, the Division spent a significant amount of time providing legal support for the supervision and resolution of problem banks.

## **3. Community and Consumer Law Division**

The Community and Consumer Law division (CCL) is responsible for providing legal interpretations and other advice on matters relating to consumer protection, the fair lending laws, and community reinvestment, including assisting in enforcement actions and fair lending referrals to the Department of Justice. CCL also is responsible for providing legal advice on issues relating to national bank community development investments, including investments in community development corporations. CCL also participates actively in numerous internal and interagency working groups and task forces.

The division prepares and reviews a wide range of written materials, including regulations, memoranda, correspondence, legislation, decisions on corporate applications, speeches, Congressional testimony, policy statements, enforcement documents, and examination procedures. In 2001, the division drafted an interagency interpretive document, *Interagency Qs and As on Community Reinvestment*, which was published by the Federal Financial Institutions Examinations Council. 66 Fed. Reg. 36,620 (July 12, 2001). CCL also assisted in a number of OCC rulemaking projects, including the Advance Notice of Proposed Rulemaking relating to the interagency review of the Community Reinvestment Act regulations. 66 Fed. Reg. 37,602 (July 19, 2001). Other interagency projects included the development of interpretations under the GLBA privacy regulations (OCC Interpretive Letters 910, 917, and 918 (May 25, 2001, September 4, 2001, and September 4, 2001)) and the Fair Credit Reporting Act (OCC Advisory Letter 2001-6 (July 6, 2001)). The division also prepared an advisory letter updating guidance on the application of the Soldiers' and Sailors' Civil Relief Act of 1940 (OCC Advisory Letter 2001-10, October 25, 2001), and assisted in the preparation of an interpretive letter relating to bank overdraft protection programs (OCC Interpretive Letter 914, August 3, 2001).

## **4. Congressional Liaison Division**

The Congressional Liaison division is responsible for the OCC's relations with members of Congress, and congressional committees, subcommittees, and staff.

The division provides analysis and advice to the Comptroller and senior OCC policymakers on congressional activities that affect or could affect the OCC, the national banking system, or the financial services marketplace. It also offers guidance on potential congressional reaction to OCC actions.

As part of its responsibilities, the division maintains regular contact with congressional members, committees, subcommittees, and staff to promote effective communication and ensure that OCC's interests are represented.

The division is the focal point of congressional inquiries, including requests for testimony, staff studies, or other support. It assists in the preparation of testimony, comments, briefings, and staff studies relating to congressional actions, as well as responses to constituent inquiries. The division provides any other necessary liaison and information services relating to congressional and legislative matters.

## **5. District Counsel**

In addition to its Washington attorneys, the law department includes a district counsel and legal staff in each of the OCC's six district offices. Each district counsel's staff consists of four to six attorneys plus support personnel. The district counsel and their attorneys serve as the OCC's frontline legal advisors, working directly with bank examiners in the field, assistant deputy comptrollers in Bank Supervision Operations, district licensing staff, and the district deputy comptrollers. District attorneys also advise relevant Large Bank examination teams and Large Bank deputy comptrollers for the large banks located within the same geographic areas. They advise these clients on virtually the entire spectrum of banking law issues, frequently dealing with questions that arise during bank examinations and require prompt resolution. District attorneys also respond to telephone and written inquiries from banks, the banking bar, and the general public. They often serve with Washington attorneys on working groups on particular topics, and work jointly with Washington attorneys on complex assignments that arise in their districts. In addition, the district legal offices administer the OCC's ethics and financial disclosure requirements for their respective district and Large Bank teams, conduct legal training programs for examiners, and speak to bankers at district and Large Bank outreach meetings.

## **6. Enforcement and Compliance Division**

The Enforcement and Compliance (E&C) division, in conjunction with the districts, conducts investigations, recom-

mends administrative actions, and litigates those actions on behalf of the OCC in administrative proceedings. E&C is responsible for nondelegated actions against individuals, other institution-affiliated parties and banks, while the OCC's districts are responsible for delegated actions. E&C may defend these actions if they are challenged in U.S. courts of appeals. E&C also defends challenges to temporary cease-and-desist orders and suspensions that have been filed in district court.

The division provides advice on enforcement and compliance issues to senior OCC officials. In conjunction with the offshore banking and fraud unit in the Special Supervision/Fraud division, E&C issued a total of 14 alerts in 2001. E&C also supports criminal law enforcement agencies by, for example, working closely with the inter-agency Bank Fraud Working Group (BFWG), chaired by the Department of Justice (DOJ), and participating in OCC's National Anti-Money-Laundering Group. The OCC continued to participate in a number of interagency groups focused on combating money laundering, including the Bank Secrecy Act Advisory Group.

During 2001, the OCC issued eight cease-and-desist orders against individuals and other institution-affiliated parties, including three restitution orders, and one temporary cease-and-desist order to preserve a bank insider's assets during the pendency of the administrative process. The OCC also imposed ten civil money penalties (CMPs) on individuals, totaling \$348,500, and issued one letter of reprimand and 14 supervisory letters to bank insiders. In addition, the OCC issued 20 removal and prohibition orders.

During 2001, the OCC issued 11 cease-and-desist orders against banks. In addition, the OCC issued 42 formal agreements, 19 memoranda of understanding, and 15 commitment letters against banks. The OCC also issued one temporary cease-and-desist order, required three safety and soundness plans pursuant to 12 USC 1831p-1, and issued two prompt corrective action directives pursuant to 12 USC 1831o. A comprehensive listing and description of the noteworthy formal enforcement actions taken by the OCC in the first half of 2001 appears in the September issue of the *Quarterly Journal*, "Special Supervision/Fraud and Enforcement Activities." For the last half of 2001, see the same section below in this issue. In addition, E&C 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. In 2001, the Fast Track program resulted in 13 prohibition orders, three of which included restitution orders.

## **7. Legislative and Regulatory Activities Division**

The staff of the Legislative and Regulatory Activities division (LRA) is responsible for the following areas of the law department's work: drafting the OCC's regulations, providing legal support for the agency's legislative work, preparing legal opinions on the applicability of state law to national banks, and providing legal advice on issues relating to national banks' regulatory capital requirements. Beginning in January 2001, the office of the OCC's Counselor for International Activities was assigned to report through LRA, adding the responsibility for providing legal advice on international banking issues relating to foreign banks' operations in the United States and the foreign operations of domestic banks.

In 2001 LRA worked on a number of projects designed to clarify either the scope of permissible national bank activities or the extent to which various types of state laws apply to national banks. The former category included writing regulations that codified our prior interpretations on national banks' ability to conduct fiduciary activities on a multi-state basis and simplified the rules governing national banks' non-interest charges and fees. The latter category included work on a final regulation providing that state law applies to the operating subsidiaries of national banks to the same extent as it applies to the parent bank.

We also prepared a number of legal opinions concerning the applicability of particular state laws to national banks. These letters covered, among other issues, state laws purporting to govern national banks' ATM operations and their automobile leasing activities. In October, 2001, the OCC released its first opinion letter addressing whether a state's insurance sales laws were preempted pursuant to the standards contained in Section 104 of the Gramm-Leach-Bliley Act (GLBA). Section 104 establishes several different preemption standards, depending on the type of activity at issue. The opinion, which was requested by the West Virginia Bankers' Association, analyzed the Section 104 standards for insurance sales, solicitation, and cross-marketing activities and concluded that certain provisions of the West Virginia insurance law were preempted, while others were not.

Our work in the insurance area also included providing legal support for the OCC's negotiation of agreements with a number of state insurance regulators governing the sharing of insurance-related information. As of the end of 2001, the OCC had entered into such agreements with state authorities in 24 states.

Other significant regulatory work during 2001 included the completion of the OCC's Community Bank-Focused Regulation Review. This review resulted in a final rule es-

tablishing a pilot program pursuant to which certain highly qualified banks may, with the OCC's approval, use special lending limits for residential real estate and small business loans. Together with the other Federal banking agencies, the OCC also completed a final interagency regulation revising the treatment, for regulatory capital purposes, of recourse arrangements and direct credit substitutes.

## **8. Litigation Division**

The Litigation division represents the OCC in court under a statutory grant of independent litigating authority. The division also works closely with the Department of Justice and with U.S. attorneys on matters of mutual interest. In 2001, the division represented the OCC or prepared *amicus* briefs in several cases relating to bank powers, federal preemption of state law, and OCC enforcement actions. The Litigation division serves as counsel to the Comptroller of the Currency in contested administrative enforcement actions. The division also participates in overseeing the Office of Financial Institutions Adjudication, which employs the administrative law judges who issue initial decisions on enforcement actions initiated by the financial institution regulatory agencies.

The Litigation division prepares decisions on requests from private litigants for access to non-public OCC information under 12 CFR 4, subpart C. On occasion, the division appears in court to oppose motions to compel a national bank to produce OCC examination reports, suspicious activity reports, and other confidential documents. The division also serves as counsel to the OCC in administrative proceedings brought by OCC employees before the Equal Employment Opportunity Commission and the Merit Systems Protection Board. On a daily basis, the Litigation division gives advice within and outside the OCC on a wide range of subjects including corporate applications, interpretive letters, memoranda prepared by other law department units, personnel issues, employee garnishments, and indemnification.

## **9. Securities and Corporate Practices Division**

The Securities and Corporate Practices (SCP) division provides legal counsel to the OCC and advises the public on federal banking and securities laws related to bank powers, securities activities, annuities and insurance, bank derivative activities, bank fiduciary matters, bank corporate activities, and bank investments.

In 2001, SCP prepared or participated in the issuance of several significant opinions and interpretations in the areas of investment securities; insurance activities, including consumer protections and types of insurance; collective investment funds and fiduciary activities; and

corporate governance. Several of these interpretations and opinions related to permissible bank and bank subsidiary activities under the Gramm–Leach–Bliley Act financial modernization legislation. SCP contributed to the Banking Agencies' comments on the SEC's Interim Final Rules for Banks, Savings Associations, and Savings Banks Under Sections 3(a)(4) and 3(a)(5) of the Securities Exchange Act of 1934.

SCP also administers and enforces the federal securities laws affecting national banks with publicly traded securities, including the Securities Exchange Act of 1934, and the OCC's related disclosure regulations at 12 CFR part 11. The division enforces the OCC's securities offering disclosure rules (12 CFR part 16), which govern national banks' public and private offers and sales of their securities, and is responsible for the OCC's enforcement program assure national bank compliance with federal securities laws applicable to bank municipal and government securities dealers, bank transfer agents, and other bank securities activities. SCP reviews securities offering disclosures, proxy materials, periodic reports, and other reports filed with the OCC under the Comptroller's securities disclosure rules and merger application procedures. The division also contributes to the SEC's enforcement and disclosure review responsibilities by arranging for the SEC to review bank examination reports and work papers in SEC enforcement cases, providing information on national bank subsidiaries of bank holding companies filing securities disclosures with the SEC, and referring potential violations.

## Licensing Department

The Licensing department establishes policies and procedures for OCC's processing of corporate applications involving national banks and performs the licensing function on a decentralized basis. Corporate structure changes requiring OCC approval include new bank charters, conversions to the national charter, business combinations, corporate reorganizations, changes in control, operating subsidiaries, branches, relocations and capital and subordinated debt issues. Most licensing requests are reviewed in the licensing units located in the six district offices and the Large Bank Licensing unit, in Washington, D.C., and decided by the licensing managers in those locations. Applications or related matters that raise especially complex or novel policy, supervisory, or legal issues are forwarded to department headquarters for analysis and for decision by senior management. The department develops and maintains information systems and deploys advanced technology to promote efficiency, quality, and consistency in licensing operations and responsive service to applicants.

The department is divided into two divisions: Licensing Operations and Licensing Policy and Systems. The Licensing Operations division includes all application processing in a single unit, including district, large bank and headquarters-directed licensing operations. During 2001, the division assumed the responsibilities for processing applications and notices involving foreign branches and agencies. This change is the last step in a concerted effort to enhance the smooth functioning of the different licensing units as an integrated licensing operation. The Licensing Policy and Systems division develops and implements general policies and procedures for the licensing activities of the OCC.

### Application Volume and Decision Results

Table 1 summarizes corporate application activity for 2001. The total number of applications filed with the OCC decreased from 2,036 in 2000 to 1,964 in 2001. The decline occurred primarily in number of branch, charter, and conversion applications, while there were increases in operating subsidiary, and fiduciary powers applications. The 2001 count does not include 105 operating subsidiary filings that were effected through after-the-fact notices, compared to 106 after-the-fact notices in 2000.

The OCC denied one application in 2001, the same as in 2000. Of the 1,777 decisions, 65 were conditional approvals. Conditional approvals decreased over 2000, when 78 of 2,036 decisions were conditionally approved. This decrease was due primarily to the decline in the number of charter and conversion applications.

Summaries of important corporate decisions for the previous quarter are published in each issue of the *Quarterly Journal*.

### Processing Timeliness

One measure of OCC's effectiveness in processing corporate applications is the percentage of applications processed within target time frames. To ensure applications are processed in a timely manner, Licensing measures processing time using benchmark time frames for routine applications and for more complex applications. Processing timeliness varies with the volume and complexity of applications. These, in turn, vary with economic conditions and changes in banking law. Table 2 shows the time frame performance for the applications processed by the OCC in 2000 and 2001 (without including after-the-fact notices for subsidiaries in 2000 and 2001). The OCC generally meets target time frames for all application types. Deviations from these targets are primarily the result of application complexity, the need to acquire additional information or peak workload demands.

**Table 1—Corporate application activity in 2001**

	Applications received		2001 decisions			Total 2001 decisions
	1000	2001	Approved	Conditionally approved <sup>3</sup>	Denied	
Branches	1,097	1,012	1,018	0	0	1,018
Capital/sub debt	145	156	108	2	0	110
Change in Bank Control	16	18	17	0	0	17
Charters	62	42	6	37	1	44
Conversions <sup>1</sup>	31	22	18	5	0	23
Federal branches	0	0	0	0	0	0
Fiduciary powers	19	30	12	0	0	12
Mergers	83	97	92	10	0	102
Relocations	253	189	187	2	0	189
Reorganizations	170	168	161	6	0	167
Stock appraisals	1	3	3	0	0	3
Subsidiaries <sup>2</sup>	159	227	89	3	0	92
Total	2,036	1,964	1,711	65	1	1,777

Note: Mergers include failure transactions when the national bank is the resulting institution.

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

<sup>2</sup> This count does not include 106 after-the-fact notices received in 2000 and 105 after-the-fact notices received in 2001.

<sup>3</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 operations.

Source: Licensing Department, Comptroller of the Currency.

**Table 2—OCC Licensing actions and timeliness, 2000—2001**

Application type	Target timeframes in days <sup>1</sup>	2000			2001			Annual change		
		Number of decisions	Within target		Number of decisions	Within target		Number of decisions	Within target	
			Number	%		Number	%		Number	%
Branches	45/60	1,065	1,046	98.2%	1,018	1,000	98.2%	-47	-46	-0.0%
Capital/sub debt	30/45	108	99	91.7%	110	107	97.3%	2	8	5.6%
Change in Bank Control	NA/60	9	9	100.0%	17	17	100.0%	8	8	0.0%
Charters <sup>2</sup>		56	39	69.6%	44	28	63.6%	-12	-11	-6.0%
Conversions	30/90	23	22	95.7%	23	18	78.3%	0	-4	-17.4%
Federal branches and agencies	NA/120	0	0	0.0%	0	0	0.0%	0	0	0.0%
Fiduciary powers	30/45	19	18	94.7%	12	10	83.3%	-7	-8	-11.4%
Mergers	45/60	77	73	94.8%	102	91	89.2%	25	18	-5.6%
Relocations	45/60	247	243	98.4%	189	187	98.9%	-58	-56	0.6%
Reorganizations	45/60	161	157	97.5%	167	161	96.4%	6	4	-1.1%
Stock appraisals	NA/90	1	0	0.0%	3	0	0.0%	2	0	0.0%
Subsidiaries	30/60	130	117	90.0%	92	82	89.1%	-38	-35	-0.9%
Total		1,896	1,823	96.1%	1,777	1,701	95.7%	-119	-122	-0.4%

Note: Most decisions (94 percent in both 2000 and 96 percent in 2001) 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 timeframes listed. The longer timeframe is the standard benchmark for more complex applications. New timeframes commenced in 1997 with the adoption of the revised Part 5. The target timeframe 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 timeframe is 120 days. For holding-company-sponsored applications, the target timeframe is 45 days for applications eligible for expedited review, and 90 days for all others.

Source: Licensing Department, Comptroller of the Currency.

The OCC's regulation governing all corporate applications, 12 CFR 5, establishes an expedited review process for certain applications from banks that are well capitalized, have a CAMELS rating of 1 or 2, have a Community Reinvestment Act rating of satisfactory or better, and are not subject to an OCC formal enforcement action. Changes made to 12 CFR 5 shortened target time frames beginning in 1997. In addition, for some routine transactions, OCC approval is no longer required. [CAMELS is the composite rating based on capital, asset quality, management, earnings, liquidity, and sensitivity to market risk.]

The time frames performance for application processing has been consistent for the last three years, after significant improvements from 1995. To provide consistent comparisons with prior years' results, the statistics have been adjusted for regulatory and processing changes. In 1996, on an adjusted basis, the OCC met target time frames on 90 percent of the applications it decided. In 1997, under the revised regulation, performance continued to improve. Even with shorter time frames, the OCC has met its targets approximately 96 percent of the time since 1998.

## Licensing Policy and Systems Division

The Licensing Policy and Systems (LP&S) division develops and implements general policies and procedures for the licensing activities of the OCC. The division takes the lead in developing new sections for and coordinating revisions to the Comptroller's Licensing Manual; develops systems and reporting capabilities for the department; and maintains systems and databases, such as the Corporate Activities Information System, and the Institution Database. The division continues its ongoing efforts to introduce new systems and technology to improve the licensing function. LP&S also develops and conducts internal and external communication activities, and provides training for licensing staff and guidance for field examination work in connection with licensing activities.

In 2001, LP&S continued to define policies and to improve upon previously developed systems. Significant projects included:

### Policy

During 2001 the OCC processed the first applications under sections 1204 and 1206 of the Financial Regulatory Relief and Economic Efficiency Act of 2000 (Title XII of the American Homeownership and Economic Opportunity Act of 2000). This act added two new sections to the National Bank Consolidation and Merger Act, codified as sections 12 USC 215a-2, and 215a-3. A national bank may use 12 USC 215a-2 to reorganize its ownership into a bank hold-

ing company structure. This process represents a significant reduction in the cost and time national banks previously incurred when reorganizing into a holding company using the interim merger process. LP&S worked with the law department to develop and test procedures national banks could use under 215a-2. The OCC processed six applications under the draft procedures. LP&S also provided consultation to the legal department in drafting a regulation to formally implement the procedures applicable to 215a-2.

Section 215a-3 enables national banks directly to merge with nonbank subsidiaries or affiliates. Corporate reorganizations available under this statute include mergers with the bank's parent company holding company, subsidiary, or affiliate. Mergers filed under 12 USC 215a-3 may involve insured or uninsured national banks. Insured national banks must seek approval from both the OCC and the FDIC while uninsured national banks apply directly to the OCC. LP&S developed guidance for national banks to use in filing 12 USC 215a-3 mergers to assist prospective applicants contemplating a filing with a nonbank subsidiary or affiliate. LP&S also worked with the law department to draft implementing regulations for this statute.

LP&S developed several new policies to enhance the chartering process. The OCC added new language to all preliminary conditional approval letters that:

- Clearly communicates that during a bank's in-organization period, the OCC may alter, suspend, or revoke preliminary conditional approval based on developments that warrant such action.
- Clarified the OCC's definition of "market test" concerning an organizing group's plan to raise capital. The policy made it clear that the organizers must notify the OCC if they are planning to raise capital in a different manner than that described in the business plan. The policy also confirmed that if the organizers cannot raise capital for a new bank within 12 months of preliminary conditional approval, the OCC would withdraw approval. The OCC will make exceptions to this policy only in rare circumstances when it determines that the delay is beyond the organizers' control.

LP&S refined its field investigation guidance procedures for new bank charters. These procedures assigned the roles and responsibilities for staff involved in the field investigation, discussed objectives of the field investigation, and outlined the process for communicating field investigation findings.

LP&S participated in efforts to meet the challenges of financial modernization. This included coordinating with the SEC and NASD to ensure that the OCC receives current

information about brokers, dealers, and investment advisors who propose to enter the national bank system; and establishing policies and guidance for ownership of national trust banks by functionally regulated entities that are not bank holding companies. Part of these efforts included leading the development of guidance for seeking and obtaining assurances to address supervisory risks presented in corporate applications, including Change in Bank Control Act notices and Bank Holding Company Act applications involving national banks.

The division continued to develop or revise guidance to clarify expectations for field staff involved in licensing activities and to identify best practices. LP&S prepared a report on its review of the chartering process that identified and incorporated ideas and lessons learned from recent *de novo* charter activity, identified best practices to enhance OCC's process, and clarified policy issues for improved guidance and consistency. LP&S is addressing report findings as it continues to develop and revise guidance for new bank charters.

LP&S continued to work closely with the FDIC to resolve differences in connection with charter and deposit insurance applications and to develop joint application processes. The division also participated in outreach activities to provide information about the OCC's corporate processes and obtain first-hand feedback to improve those processes.

LP&S worked with other OCC units to clarify guidance for processing community development (CD) national bank charters. The OCC issued an open letter to organizers of CD banks that outlined criteria the OCC uses in granting a CD bank charter, explained assistance the OCC may provide to organizers of CD banks, and affirmed the factors the OCC considers to be critical to the success of any *de novo* charter. As a by-product of this work, the project team refined and communicated to OCC staff procedures that are unique to the chartering and supervising of CD banks.

LP&S and other OCC units briefed the Comptroller about their activities related to providing financial services to Native Americans. LP&S highlighted the success of the OCC publication "A Guide to Tribal Ownership of a National Bank" and anecdotal evidence about growing interest from federally recognized tribes to establish or acquire ownership of a national bank.

## **Systems**

LP&S made significant progress during 2001 in developing and implementing key aspects of e-Corp, the future

electronic corporate application processing system that will replace OCC's current data and application systems. Progress in 2001 included additional testing of an extranet branch and relocation application for electronic filing and continued expansion of ad hoc query capabilities to improve reporting of licensing and structure information.

LP&S provided licensing and structure information to respond to congressional inquiries, including those relating to CRA issues. Licensing and Institution Database information were also used to respond to public inquiries. Additionally, LP&S continued to provide the OCC's Communications division with licensing and structure information to respond to requests made under the Freedom of Information Act.

## **Licensing Operations Division**

The Licensing Operations division processes all domestic and international licensing applications. Licensing Operations is comprised of staff located in each of the OCC's six district offices and the OCC's Washington office. The district licensing units have decision authority for the majority of applications filed with the OCC. Applications that raise significant legal and policy issues usually are decided in the Washington office. The division provides recommendations to OCC senior management with respect to the disposition of these applications. In addition to processing licensing applications, the division conducts bank stock appraisals upon request from shareholders dissenting to mergers or consolidations involving national banks.

## **Service Quality**

Licensing Operations uses a survey to monitor the quality of service provided to banks filing licensing applications. The survey requests ratings for five service categories and a rating for overall service. The OCC sends a survey to each applicant, except for large banks and a few mid-size banks which, due to application volume, are surveyed on a quarterly basis. Applicants are asked to rate the OCC's quality of service on a scale of 1 to 5, with 1 being outstanding and 5 being significantly deficient. For 2001, 99 percent of the applicants responding to the licensing survey gave the OCC excellent overall marks (ratings of 1 or 2) for the way their applications were processed. This result is 2 percent higher than the prior year's result.

The average rating for each of six service categories follows:

Service category	Rating
Timeliness of decision . . . . .	1.15
Appropriateness of filing location/contact person . . . . .	1.23
Knowledge of OCC contact . . . . .	1.17
Professionalism of OCC staff . . . . .	1.09
Quality of written guidance (added in 2000). . . . .	1.48
Overall rating of service . . . . .	1.16

These results compare favorably with those for 2000. In 2001, as compared to the prior year, the average rating improved for most of the categories that were rated last year.

Timeliness of decisions on applications is an important determinant of efficiency in Licensing Operations and is another measure used to monitor performance. Timeframe performance overall was excellent, and unchanged from last year, with approximately 96 percent of all licensing applications decided within established timeframes. Applications that were not decided within established timeframes were generally those that raised substantive legal or policy issues, such as electronic banking, interstate banking or other significant, unique or precedent-setting activities, and applications that were the subject of adverse public comments, raised anti-competitive issues, or had the potential to adversely affect historic properties.

### Outreach Activities

The Licensing staff devoted a significant amount of time to outreach activities in 2001. This included meeting with applicants and applicant groups to discuss the application process, provide guidance, answer questions, and, when necessary, seek additional information on specific applications. Various groups heard presentations discussing the OCC's licensing process and providing an overview of licensing trends. Presentations included updates on changes in laws and regulations, discussions of the application process, state of national banking system and chartering activity. In conjunction with the Bank Supervision and law departments, Licensing reconfigured the OCC's Internet site to provide in one consolidated location Internet banking-related information. Licensing staff provided training for foreign bank supervisors on chartering and supervision of national banks.

### Application Activity

The Licensing Operations division provides summaries of selected licensing decisions to every issue of the *Quarterly Journal*. In addition, decisions that represent new or changed policy or present issues of general interest to the public or the banking industry are published monthly in the OCC publication, *Interpretations and Actions*.

### Community Reinvestment Act

Consistent with 12 CFR Part 5, the OCC's procedures for handling Community Reinvestment Act (CRA) issues in applications, including how adverse comments from the public would be handled, are detailed in the "Public Involvement" booklet (April 1998) in the *Comptroller's Corporate Manual*.

During 2001, the OCC received adverse comments from the public on two CRA-covered applications. The OCC also reviewed and publicly addressed CRA issues raised in other applications.

The decisions on applications presenting CRA issues, listed in Table 3, were published in the OCC's monthly *Interpretations and Actions* and are also available on the OCC's Web site.

### Change in Bank Control Act

The Change in Bank Control Act of 1978 (CBCA) requires that parties who wish to acquire control of a national bank through purchase, assignment, transfer, or pledge, or other disposition of voting stock notify the OCC in writing 60 days prior to the proposed acquisition (unless a filing is required under the Bank Merger Act or the Bank Holding Company Act). Any party acquiring 25 percent or more of a class of voting securities of a national bank must file a change in bank control notice. In addition, if any party acquires 10 percent or more (but less than 25 percent), that party must file a change in bank control notice under certain conditions. The acquiring party must also publish an announcement of the proposed change in control to allow for public comment.

The CBCA gives the OCC the authority to disapprove changes in control of national banks. The OCC's objective in its administration of the CBCA is to enhance and maintain public confidence in the national banking system by preventing identifiable, serious, adverse effects resulting from anti-competitive combinations or inadequate financial support and unsuitable management in national banks. The OCC reviews each notice to acquire control of a national bank and disapproves transactions that could have serious harmful effects. If the notice is disapproved, the disapproval letter contains a statement of the basis for



disapproval. The OCC's actions for 2001 are reflected in Table 4. As reflected in the table, the OCC received 18 change in bank control notices in 2001, two more than received in 2000. Of the 18 notices received, the OCC acted on 17, none of which was disapproved. The one remaining notice was withdrawn prior to decision.

## Community Affairs Department

In an effort to improve the services provided to banks and examiners in 2001, the Community Affairs (CA) department embarked on a restructuring effort. This undertaking resulted in a new mission, and the identification of core services. CA's mission is:

To enhance the OCC's leadership position as the administrator of national banks by:

- Providing expertise and information to support OCC's supervision of national banks' community development activities; and
- Assisting national banks in achieving their community development goals.

CA achieves this mission by providing the following services:

- Consultation with national banks on community development activities
- Accessibility of National Bank Community Development Investments (part 24)
- Information and Policy Services
- Community Relations and Interagency Coordination

During 2001, CA developed the Regional Team concept in an effort to provide products and services to banks and staff within assigned districts. There are five teams, three of which are comprised of CA staff from both Washington and the districts. Each team is responsible for identifying issues and concerns of community-based organizations relating to banking and the financial services industry and the OCC, as well as any initiatives under way by these organizations in the area of community development or CRA. The teams also will serve as a performance context resource for examiners conducting CRA evaluations by providing information about community development opportunities in smaller cities and rural areas where the information is more difficult to obtain.

**Table 3—Decisions presenting Community Reinvestment Act issues**

Bank, city, state	Interpretations and Actions	Document number
Fleet National Bank, Providence, RI . . . . .	April 2001	Conditional Approval Letter No. 454
Wells Fargo Bank New Mexico, NA, Albuquerque, NM. . . . .	March 2001	CRA Decision No. 108
Chase Manhattan Bank USA, NA, Wilmington, DE. . . . .	April 2001	Corporate Decision No. 2001-06
First USA Bank, NA, Wilmington, DE . . . . .	July 2001	Corporate Decision No. 2001-16
Firststar Bank, NA, Cincinnati, OH . . . . .	August 2001	CRA Decision No. 109
Citibank, NA, New York, NY . . . . .	August 2001	Conditional Approval Letter No. 476
White Hall National Bank, White Hall, IL. . . . .	January 2002	CRA Decision No. 110

**Table 4—Change in Bank Control Act,<sup>1</sup> 1988–2001**

Year	Received	Acted on	Not disapproved	Disapproved	Withdrawn
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	15	13	0	2
1995	15	16	16	0	0
1994	15	16	15	1	0
1993	28	30	21	5	4
1992	30	29	21	4	4
1991	20	15	6	6	3
1990	31	42	32	5	5
1989	55	55	48	3	4
1988	45	42	34	4	4

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

Source: Licensing Department, Comptroller of the Currency.

CA staff organized four outreach meetings for the Comptroller on issues such as community development, payday loans, predatory lending, and access to financial services. The department also organized a community development tour for senior OCC officials, hosted by the Historic District Development Corporation in Atlanta, GA. The tour provided valuable information about partnerships between nonprofit community development corporations and national banks.

CA staff arranged for Comptroller John D. Hawke, Jr. to deliver the keynote address at the annual conference of the National Community Reinvestment Coalition in March, and for First Senior Deputy Comptroller and Chief Counsel Julie L. Williams to deliver the keynote address at the McAuley Institute's National Women and Housing Conference in November.

CA developed the *National Issues Matrix* for OCC management and examiners. The matrix includes information about "hot topics" and activities of two dozen key community, consumer, and minority organizations that interact with the OCC.

## Community Development Division

The Community Development division (CDD) provides expert advice to senior management and OCC staff on community and economic development policies and procedures for national banks. In addition, the division produces guidance and publications that help banks increase the availability of financial services in underserved markets and profitable investments in those markets. CDD also administers the Community Development Investment authority (12 CFR part 24) and provides technical assistance and advice to national banks seeking to make CD investments or establish CD focus banks.

The OCC developed the Part 24 CD-1 form, which provides a convenient method for national banks to self certify or request prior approval of a community development investment. This form is available in the 2000 directory of *National Bank Community Development Investments* as well as on Community Affairs' Part 24 page on the OCC Web site at <http://www.occ.treas.gov/cdd/CD-1.doc>. In 2001, the OCC approved 121 national bank investments under the Part 24 CD investment authority for a total of \$556 million. These bank investments, together with funding from their community development partners, totaled \$1.06 billion in funding for affordable housing, small business, and redevelopment projects in low- and moderate-income areas during 2001. Part 24 authority allows banks to make equity and debt investments that support affordable housing and commercial development, start-up and small business growth, activities that revitalize or stabilize

a government-designated area, and other activities that supplement or enhance banks' traditional lending.

The division coordinated the production of two editions of the CD newsletter. The first focused on growing diverse banking markets. The second focused on the challenges and opportunities of providing banking services in Native American Indian country. (<http://www.occ.treas.gov/cdd/resource.htm>) In addition, a *Native American Banking Resource Directory* was unveiled on OCC's Web site at <http://www.occ.treas.gov/cdd/Nativeam.htm> and the division sponsored a roundtable concentrating on these issues. The division produced a *Policy Statement on Minority-Owned Banks* that outlines the OCC's policies and initiatives to further the ability of minority banks to prosper and meet the needs of their communities, and developed and maintains a Minority Financial Institutions page on BankNet. The division also wrote a memo that OCC's chief counsel provided to prospective organizers of CD banks which: (1) outlines the chartering process for CD banks, (2) discusses the licensing and operational issues facing organizers of these institutions, and (3) describes the types of assistance the OCC provides to organizers of CD banks.

## District Community Affairs Division

The District Community Affairs division supports the dual mission of CA through the activities of the Community Affairs Officers (CAOs) assigned to each of the OCC's six districts. The CAOs provide technical assistance to small banks having difficulty making the transition from being evaluated under the small bank CRA performance criteria to being evaluated under the lending, investment, and service tests. The CAOs also render technical assistance to national banks making the transition from being evaluated under the small bank CRA performance criteria to being evaluated under the lending, investment, and service tests; and to banks wishing to maintain or improve performance under the lending, investment, and service tests.

The CAOs contribute information and technical assistance on community development and CA issues to OCC staff and national bankers. Through research, the CAOs provide information on community development organizations, programs, and strategies that banks could use to make qualified investments, community development loans, and to provide community development services.

During 2001 the CAOs were instrumental in initiating the Earned Income Tax Credit/Volunteer Income Tax Assistance program in Chicago, IL, and Kansas City, MO. Under the program, volunteers prepare low-income residents' tax returns free, often in the lobbies of financial institutions located in low- and moderate-income neigh-

borhoods, and the financial institutions offer accounts to taxpayers that receive refunds.

## **Outreach and Information Management Division**

The Outreach and Information Management division (O&IM) continues to serve CA's internal and external customers through efficient and effective use of technology and resources. A segment of these efforts included access to the "webzine," CA's Web version of its *Community Developments* newsletter online at [www.occ.treas.gov/cdd/EzineSumNov.pdf](http://www.occ.treas.gov/cdd/EzineSumNov.pdf); as well as revamping its Web page to create a more user-friendly site.

The division also serves as liaison between national banks and national minority and civil rights organizations. In 2001, O&IM collaborated with CD staff in hosting roundtables that focused on prevalent community development-related issues.

O&IM staff worked in partnership with the American Bankers Association to plan and execute the American Bankers Association Community and Economic Development Conference (co-sponsored by the OCC). Staff also participated in planning and coordinating an interagency outreach initiative with CEOs of minority-owned banks to discuss safety and soundness and compliance issues with OCC bank supervision and community affairs staff.

## **2001 Significant Legal, Licensing and Community Development Precedents**

### **Permissible Activities Generally**

#### **General Activities**

##### **Consulting and Financial Advice**

- **Employee benefit and payroll business.** A national bank may hold a non-controlling equity investment in a company that will provide employee benefit and payroll services to small community banks and their small business customers. The investment was incidental to the bank's business because it involved preparing and conveying financial information to the bank's customers and their employees. It would also benefit the bank's small business customers by providing services to them that would not be cost efficient for those customers to provide for themselves. OCC Interpretive Letter No. 909 (May 2, 2001)

### **Corporate Governance**

- **Bank holding company formation.** A national bank may undertake reorganization pursuant to 12 USC 215a-2 and 12 CFR 7.2000(a), which provide a streamlined process for a national bank to form a bank holding company or for an existing holding company to acquire an unaffiliated national bank through an exchange of the bank's stock for cash or securities of the bank holding company. Corporate Decision No. 2001-21 (July 26, 2001)
- **Bank ownership by Native American tribes.** A national bank consolidated with an interim bank to effect the acquisition of the bank by a holding company that is jointly owned by a number of federally recognized Native American tribes. This is the only bank that is owned by a consortium of Indian tribes and tribal corporations. The decision contains an extensive list of special conditions, requirements, and directors' oaths that were tailored specifically for this bank because of its tribal ownership structure. Conditional Approval No. 493 (September 28, 2001)
- **Blank check preferred stock.** Consistent with 12 CFR 7.2000(b), a national bank that had elected in its by-laws to be governed by California law may issue blank check preferred stock. OCC Interpretive Letter No. 921 (December 13, 2001)
- **Merger of holding company into subsidiary national bank.** A national bank owned by a holding company may eliminate its holding company by merging the holding company into the national bank. The merger must be permissible for the holding company under the state law of the state in which the holding company is incorporated. The merger is permissible for national banks under 12 USC 215a-3. Corporate Decision No. 2001-33 (November 29, 2001)
- **Merger of mortgage banking companies into bank under the AHOEO Act.** A national bank's mortgage banking subsidiary and the mortgage banking subsidiary of one of its affiliate banks may merge directly into the national bank, under American Home Ownership and Economic Opportunity Act of 2000, 1206, 12 USC 215a-3, which permits mergers between national banks and nonbank subsidiaries and affiliates, subject to OCC approval. Corporate Decision No. 2001-22 (July 26, 2001)
- **Restructuring of credit card, international, consumer, and commercial finance businesses.** A banking organization's credit card, international consumer and commercial finance businesses were restructured in a large, complex transaction. The restructuring resulted in one bank being the main issuer of consumer credit cards, and another bank being the issuer of govern-

ment, corporate, and certain consumer credit cards. As part of this transaction, various ancillary entities that were bank or holding company subsidiaries became subsidiaries of the credit card-issuing banks. Certain activities related to ownership of motor vehicles were approved for the first time, either as finder activities or on an excess capacity basis. Newly authorized finder activities included assisting vehicle owners in selling their vehicles; assisting them in locating tow trucks and vehicle repair facilities; assisting corporate customers in obtaining employee driving records from the state motor vehicle department; and assisting such customers with driver's license renewals and vehicle registrations. Newly authorized excess capacity activities included management of third-party subrogation claims for accidents involving automobiles not leased from the bank, and assisting owners of vehicle fleets in establishing corporate safety policies. In addition, certain finance company affiliates were transferred to and became subsidiaries of one of the banks. Corporate Decision No. 2001-28 (September 21, 2001)

- **Share exchanges.** A national bank may effect a holding company reorganization through an exchange of the bank's stock for cash or securities of a bank holding company under 12 USC 215a-2. Corporate Decision No. 2001-23 (August 1, 2001); Corporate Decision No. 2001-21 (July 26, 2001)

### Finder Activities

- **Finder authority.** Under its authority to act as a finder, a national bank may help arrange for the purchase of nonfinancial products by its credit card customers. The bank proposed to make each customer who contacts the bank's call center aware that a nonfinancial product is available to the customer and that the bank will, upon the customer's request, transmit certain information to the product's vendor. OCC Interpretive Letter No. 904 (January 18, 2001)

### Leasing

- **Real estate leasing.** A national bank's financial subsidiary proposed to engage in real estate leasing of the type that the Board of Governors of the Federal Reserve System has determined to be permissible in section 225.28(b)(3) of Regulation Y. The financial subsidiary also proposed to become a general partner of a limited partnership that would also engage in real estate leasing permitted by Regulation Y. Financial Subsidiary Filing. (December 6, 2001)

### Lending

- **Combination of church loans under the direct benefit test where controlling trust beneficiaries are identical.** A na-

tional bank with four outstanding loans to four separate local churches proposed to lend additional funds to a fifth church. Because the proceeds of loans made to the local churches are used for transactions which are controlled by trusts having an identical beneficiary (the parent church), and this beneficiary is entitled to the ultimate benefit of those transactions, the loans should be combined and attributed to the beneficiary. OCC Interpretive Letter No. 925 (April 12, 2001)

- **Construction loans to unaffiliated lenders.** A bank may establish a wholly owned operating subsidiary to provide a number of real estate construction loan services to unaffiliated lenders. This was the first approval of banks providing many of these services, which banks provide for themselves, to other parties. Corporate Decision No. 2001-27 (September 13, 2001)
- **Debtor bank located in state of its main office for UCC purposes.** As a general matter, under revised Article 9 of the Uniform Commercial Code, the location of the debtor determines which state's law governs perfection of a security interest. Section 9-307 determines the location of debtors for choice of law purposes. For purposes of this section, a debtor national bank is located in the state in which its main office is located. OCC Interpretive Letter No. 913 (August 6, 2001)
- **Loan attribution to one entity through common enterprise test.** A national bank proposed to make loans to two entities ("A" & "B") that were related through the common control of a third entity ("X"). A and B each pays more than 50 percent of its gross annual expenditures to the controlling entity X. Accordingly, the proposed loans to A and B would be attributed to X under 12 CFR 32.5(c)(2) and thus combined for purposes of the legal lending limit, even where X does not borrow directly from the national bank. OCC Interpretive Letter No. 904 (January 18, 2001)

### Other Activities

- **Bank-owned variable life insurance invested in equity securities.** In certain circumstances, bank-owned variable life insurance may be invested in equity securities in connection with employee compensation and benefit plans. Such insurance can be used in connection with defined contribution plans but not defined benefit plans. OCC Interpretive Letter No. 926 (September 7, 2001)
- **Foreign investment company owning national bank.** A foreign-based global investment management company, which is not a bank holding company, is not covered by the International Banking Act, and is not subject to comprehensive consolidated supervision, may own a national bank, provided: the OCC would have

access to all books and records of the bank's parents that concern the bank; through a written binding agreement the parent will provide capital maintenance and liquidity support to the bank; the bank will not engage in covered transactions with foreign affiliates unless the bank notifies the OCC in advance and maintains documentation on the transaction and has available for OCC review financial information on the affiliate; all transactions between the bank and any affiliate will be conducted subject to 12 USC 371c, 371c-1 or other applicable federal law; the bank will adopt and implement policies, procedures and internal controls reasonably designed to encompass anti-money laundering efforts; and the parent must maintain a designated agent in the United States. Conditional Approval No. 425 (November 8, 2000)

- **“On us” check cashing fees.** Banks may charge a non-accountholder a convenience fee for using a bank teller to cash an “on us” check. An “on us” check is a check drawn on the bank by one of the bank's customers. As noted in these letters, this fee is essentially compensating the bank for making cash immediately available to the payee; otherwise, the payee would have to wait for the check to clear through the payment system. These fees are authorized under 12 USC 24(Seventh) and 12 CFR 7.4002(a). OCC Interpretive Letter No. 932 (August 17, 2001), OCC Interpretive Letter No. 933 (August 17, 2001)
- **Order of check posting.** A bank's decision concerning the order of posting checks presented for payment is a pricing decision authorized by 12 USC 24(Seventh) and 12 CFR 7.4002. This would permit the bank to pay the largest check first from an account in a given 24-hour cycle. OCC Interpretive Letter No. 916 (May 22, 2001)
- **“Qualified intermediary” for reverse like-kind exchanges.** A national bank's operating subsidiary, through limited liability corporation subsidiaries, may act as a “qualified intermediary” for investors interested in consummating tax-deferred “reverse like-kind exchanges” of real properties. Internal Revenue Code, 26 USC 1031, permits like-kind exchanges, which allow investors to exchange certain investment property, including real property, for other investment property, subject to certain limitations. In a reverse like-kind exchange, investors identify and acquire replacement properties before disposing of relinquished properties. As a qualified intermediary, the operating subsidiary is an independent party that facilitates the process by acquiring an interest in the replacement real property without acquiring full legal title in the property, and by providing proper documentation to preserve the integrity of the transaction for IRS purposes. Corporate Decision No. 2001-30 (October 10, 2001)
- **Real estate construction services.** A national bank may establish a wholly owned operating subsidiary to furnish administrative, management, and consulting services to unaffiliated real estate construction lenders and investors. The services may include project feasibility, cost, contract, environmental and seismic reviews; appraisals; loan document preparation; collateral and construction phase completion monitoring; syndicated loan lead agent tasks; and lender training on construction loan administration. Corporate Decision No. 2001-27 (September 13, 2001)

## Compliance

- **Agency summary judgment motion granted regarding challenge to jointly issued consumer privacy regulations.** The U.S. District Court for the District of Columbia granted the summary judgment motion filed by the FTC, OCC, Federal Reserve Board, OTS, FDIC, and NCUA. The plaintiffs, who are in the business of selling consumer information, challenged the agencies' joint issuance of bank customer privacy regulations under the Gramm-Leach-Bliley Act as beyond the authority provided for under the Act and in violation of plaintiffs' constitutional right to commercial free speech. Specifically at issue was whether the plaintiffs' sale of “credit header” information was subject to the regulations' restrictions and disclosure and reuse. Only one of the plaintiffs, TransUnion, has pursued an appeal before the D.C. Circuit. *Individual Reference Services Group, et al. v. FTC, OCC, et al.* (D.D.C.) (April 30, 2001)
- **Disclosure of customer account number to insurance marketer.** Under Gramm-Leach-Bliley Act (GLBA) privacy rules, financial institutions may not disclose customer account numbers to a marketer of insurance products, even if the customer has consented to such disclosure. As a general rule, GLBA prohibits the disclosure of account numbers to nonaffiliated third parties for use in marketing. This prohibition remains effective after the customer has accepted the offer to buy the product being sold. OCC Interpretive Letter No. 910 (May 25, 2001)
- **Obtaining credit reports in business loan transactions.** Under the Fair Credit Reporting Act (FCRA), lenders need not obtain a consumer's consent before obtaining the consumer's credit report in connection with a business credit transaction where the individual is or will be personally liable on the loan, such as in the case of an individual proprietor, co-signer, or guarantor. The FCRA permits the furnishing of consumer reports to persons who intend to use them in connection with extensions of credit to the consumer, and this criterion is satisfied where the consumer may be liable on the loan. Inter-

agency Letter (May 31, 2001). See also OCC Advisory Letter 2001-6 (July 6, 2001).

- **Overdraft programs.** Certain overdraft programs, offered by third-party vendors and designed primarily to increase banks' fee income, raise legal, supervisory, and policy concerns. Supervisory concerns arise from the potential credit risk created by the overdraft loans and the bank's arrangements with the third-party vendor providing the product. Policy concerns arise because the programs may encourage customers to write "not sufficient funds" checks, thus promoting poor fiscal responsibility on the part of some consumers. These programs also may raise potential issues under the Truth in Lending Act, Truth in Savings Act, Electronic Fund Transfer Act, Equal Credit Opportunity Act, Federal Trade Commission Act, and Regulation O. OCC Interpretive Letter No. 914 (August 3, 2001)
- **Placing loan account numbers on mortgage-related documents.** Under the GLBA privacy rules, lenders may place the borrower's loan account number on mortgages, deeds of trust, and assignments and releases of mortgages that are then recorded in public records. This practice is not prohibited by GLBA's provisions on disclosing account numbers, which, as a general rule, ban the disclosure of account numbers to nonaffiliated third parties for use in marketing. In addition, this practice falls within the exception to GLBA's opt-out requirements for disclosures of information that are "necessary to effect, administer, or enforce the transaction" as that term is defined in GLBA. OCC Interpretive Letters Nos. 917 and 918 (September 4, 2001)

## Fiduciary Activities

- **Collective investment funds.** A national bank's model-driven funds, established pursuant to 12 CFR 9.18, may allocate costs to individual participants being admitted to or withdrawing from such funds in the same manner and to the same extent as section 9.18 index funds. OCC Interpretive Letter No. 919 (November 9, 2001)
- **Collective investment trust admissions and withdrawals.** Annual admissions and withdrawals are permitted where circumstances warrant under section 9.18, and therefore an exemption from section 9.18 is not required. OCC Interpretive Letter No. 920 (December 6, 2001)

## Insurance and Annuities Activities

- **Insurance consumer protections.** Responses to questions relating to retail sales practices, solicitations, ad-

vertising or offers of insurance products and annuities by depository institutions. Interagency Guidance on Consumer Protections for Depository Institution Sales of Insurance, OCC Bulletin 2001-43 (August 17, 2001)

## Insurance Underwriting and Reinsurance

### Reinsurance

- **Reinsurance activities of credit-related insurance for unaffiliated lenders.** A national bank operating subsidiary may provide reinsurance of credit life, health and disability insurance written in connection with loans extended by a bank and affiliated and unaffiliated lenders under the "authorized product" exception of section 302 of the Gramm-Leach-Bliley Act. Corporate Decision No. 2001-10 (April 23, 2001)

### Preemption

- **ATM operations.** State laws in Massachusetts and Florida that purport to restrict the ability of a national bank located elsewhere to establish and operate automated teller machines in those states are preempted. The Massachusetts law imposes a reciprocity requirement; Florida requires banks to be authorized to do business in Florida, which the Florida Banking interprets to mean, in the context of an out-of-state bank, a bank that has established a branch in Florida pursuant to Florida's branching laws. OCC Interpretive Letter No. \_\_\_\_\* (October 15, 2001)
- **Limits on sales of reclaimed leased vehicles.** Certain provisions of Ohio law that purport to limit the ability of national banks to engage in the business of leasing automobiles are preempted. As interpreted by the Ohio Bureau of Motor Vehicles, Ohio law prohibits the public sale of reclaimed leased vehicles. Direct sales to the public are permitted in the case of repossessed vehicles, but vehicles reclaimed from a lessor for non-payment are not considered "repossessed" under Ohio law. As a result, national banks would be required to sell reclaimed leased vehicles at wholesale to persons licensed as dealers under state law. These requirements frustrate the ability of national banks to operate efficiently and in a manner consistent with safe and sound banking practices, and therefore would be preempted. Preemption Determination, *Federal Register*, 66 FR 23977 (May 10, 2001)
- **Motor vehicle sales finance laws.** A Michigan statute, as interpreted by the Michigan Financial Institutions Bureau, that would limit the ability of national banks to use

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[\* Indicates that the interpretive letter was not yet released.]

agents to make loans to finance motor vehicle sales is preempted. The state law would have had the effect of prohibiting national banks from charging interest at a rate permitted by their home state as authorized by 12 USC 85, and would have imposed a licensing requirement on national banks as a precondition to exercising permissible federal powers. Preemption Determination, *Federal Register*, 66 FR 28593 (May 23, 2001)

- **Ohio insurance law.** A unanimous panel of the U.S. Court of Appeals for the Sixth Circuit, affirming the court below, held that 12 USC 92 preempts provisions of Ohio law that interfered with a national bank's power to sell insurance as agent in Ohio. The specific Ohio law provisions at issue were the Ohio "principal purpose test" and corporate organizational requirements that have the effect of significantly hindering a national bank's sale of insurance in Ohio. The case was remanded to the district court to address the issue of what effect, if any, the preemption provisions in the Gramm–Leach–Bliley Act have on the preemption analysis. The OCC filed amicus briefs with both the district and appellate courts. *Association of Banks in Insurance v. Duryee*, No. 99–3917 (6th Cir.) (November 1, 2001)
- **"On us" check cashing fees.** The federal district court for the western district of Texas granted a permanent injunction restraining the effectiveness of a new Texas statute purporting to prohibit banks from charging a teller's fee for cashing a check drawn on an account with that bank (i.e., an "on us" check cashing fee). The case was brought by several banks against the Texas banking commissioner. The OCC filed a brief *amicus curie* in favor of the plaintiff's position. *Wells Fargo Bank Texas v. Randall James*, No. 01–CA–538–JRN (U.S.D.C., W.D. Tex.) (December 3, 2001)
- **State insurance sales law under the Gramm–Leach–Bliley Act.** Certain provisions of West Virginia's Insurance Sales Consumer Protection Act are preempted under insurance preemption standards established by section 104 of the Gramm–Leach–Bliley Act. Federal law preempts some, but not all, of the provisions of the West Virginia Act. In particular, federal law *does not preempt* the following provisions of the West Virginia Act with respect to national banks:
  - The prohibition against requiring or implying that the purchase of an insurance product from a bank is required as a condition of a loan;
  - The prohibition against a bank offering an insurance product in combination with other products unless all of the products are available separately; and
  - The requirement that, where insurance is required as a condition of obtaining a loan, the insurance and credit transactions be completed independently and through separate documents.

The following provisions of the Act are preempted only in part:

- The provisions prescribing the content of the disclosures that a bank is required to make in connection with the solicitation of an insurance product and the requirement that a bank that sells insurance obtain a written acknowledgment, in a separate document, from its insurance customer that certain disclosures were provided are *not* preempted.
- However, the provisions regarding the manner and timing of certain required disclosures are preempted.

And the following provisions are preempted:

- The requirement that banks use separate employees for insurance solicitations;
- The restrictions on the timing of bank employees' referral or solicitation of insurance business from customers who have loan applications pending with the bank;
- The restrictions on sharing with bank affiliates information acquired by a financial institution in the course of a loan transaction to solicit or offer insurance; and
- The requirement that banks segregate the place of solicitation or sale of insurance so that it is readily distinguishable as separate and distinct from the deposit-taking and lending areas.

Preemption Determination, *Federal Register*, 66 FR 51502 (October 9, 2001)

## Securities Activities

- **Deposit notes do not constitute "securities."** Sales of a national bank's Deposit Notes through its affiliated retail securities broker-dealer network do not constitute the sale of "securities" as defined in OCC securities offering regulations at 12 CFR 16. OCC Interpretive Letter No. 922 (December 13, 2001)

## Technology and Electronic Activities

- **Affinity marketing via the Internet.** A national bank may solicit "affinity" relationships with other groups and commercial entities to establish a private-label banking clientele. Exercising its authority to use multiple trade names, the bank can offer its products and services to customers or members of the affinity group under a private label through the Internet and establish individual divisions to provide products and services specific to the needs expressed by affinity groups. The

bank must comply with OCC guidance with respect to co-brands and private labels. Conditional Approval No. 462 (April 4, 2001)

- **Electronic storage and safekeeping.** As a modern version of national banks' traditional safekeeping function, a national bank may provide an integrated, on-line information service for secure Web-based document storage and retrieval of documents and files containing personal information or valuable confidential trade or business information. Data can be stored on systems controlled by the bank and will be accessible by customers through the Internet or a dedicated line. Except for storage, access, and retrieval, the bank will not process or manipulate the information stored. The bank may also offer its customers the ability to grant third parties controlled access to the stored documents and files so as to enable the use of document collaboration tools. Conditional Approval No. 479 (July 27, 2001)
- **Services to Internet merchants.** A national bank may enable small business merchants to acquire a package of electronic services that allows the merchants to create Web stores and process electronic payments for purchases made over the Internet. The national bank, under its authority to act as a finder, can refer the merchants to another unaffiliated company that provides Web site building software and Web hosting services. The bank can provide authorization and processing services necessary for the merchants to accept on-line credit and debit card payments in a secure environment. The bank can also provide the merchants with reports on the activity of their Web stores and answers to "frequently asked questions" on the use of the Web design software based upon answers prepared and supplied by the software company. Finally, the bank also may help other financial institutions to market as finders this package of electronic commerce services to their own merchant customers. Corporate Decision No. 2001-18 (July 3, 2001)

## Electronic Commerce

- **Mortgage lending on-line.** A national bank may deliver mortgage-lending products on-line to its retail customers through a variety of electronic delivery channels including the Internet, automated teller machines, and/or remote service units. Conditional Approval No. 462 (April 4, 2001)
- **Trade finance facilitation.** A national bank may make a non-controlling investment in a company that, through its Internet site, facilitates trade financing between exporters and importers by arranging financing, obtaining credit insurance, and acting as escrow and paying agent. Conditional Approval No. 436 (December 19, 2000)

## Investments<sup>1</sup>

- **Agricultural cooperative.** Under Part 24, a national bank may purchase common stock in an agricultural cooperative, where the bank's liability was limited to the amount of its equity investment. The cooperative was initiated by a local economic development authority and local farmers and businesses as a way to promote the economic development of the area, and had received financial support from both the economic development authority and the federal government. The cooperative also benefited low- and moderate-income individuals by creating permanent jobs for those individuals. Approval Letter (September 4, 2001), National Bank Community Development Investments 2001 Directory.
- **CD investments up to 10 percent investment limit.** In connection with a request for prior approval of an affordable housing investment, the OCC approved a national bank's request to self-certify future affordable housing investments that would exceed 5 percent of its capital and surplus, up to a maximum of 10 percent of capital and surplus. The requirements of 12 CFR 24 relating to self-certification and all other requirements of the regulation will apply to the additional investments. Approval Letter (August 1, 2001), National Bank Community Development Investments 2001 Directory.
- **Closed-end mutual fund.** National bank may purchase an equity interest in a closed-end mutual fund that finances affordable housing primarily for low- and moderate-income individuals. The fund is structured as a Business Development Company under the Investment Company Act of 1940. The fund purchases securities backed by loans to homebuyers with incomes below 80 percent of median income as well as loans to sponsors of multifamily housing units that use federal low-income housing tax credits or financing provided by HUD. The fund also invests in HUD-guaranteed securities that support community development in low-income areas. Approval of Bank's Self-Certification (April 20, 2001), National Bank Community Development Investments 2001 Directory.
- **Connecticut Housing Finance Authority bonds.** A national bank may purchase Connecticut Housing Finance Authority Bonds as Type I securities. They are subject to a 20 percent risk-weight under the OCC's risk-based capital regulation. OCC Interpretive Letter No. 907 (February 1, 2001)

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<sup>1</sup> For investments in partnerships, note that subsidiaries of national banks may become general partners, but national banks may not.



- **Environmental redevelopment fund.** National bank may purchase member shares in a limited liability company (LLC) that primarily benefits low- and moderate-income areas. The LLC provides financing to private and public sector borrowers for environmental analysis and remediation of properties with environmental contamination issues for reuse to attract new and growing businesses, create jobs, provide affordable housing, and support other community development efforts. In addition to the LLC structure, the fund would also seek to protect investors by obtaining third-party insurance for projects that have residual risk, as well as pooled insurance for its portfolio. Approval of Bank's Self-Certification (July 18, 2001), National Bank Community Development Investments 2001 Directory.
- **Municipal revenue bonds.** Under 12 USC 24 (Seventh), as amended by the Gramm-Leach-Bliley Act, a well-capitalized national bank may underwrite and deal in municipal revenue bonds issued by or on behalf of Puerto Rico. OCC Interpretive Letter No. 915 (August 15, 2001)
- **Mutual fund containing general obligation and municipal revenue bonds.** A national bank may in a mutual fund containing general obligation and municipal revenue bonds under 12 CFR 1.3(h)(2). The investment has a risk-weight dependent on the composition of the fund's assets, but in no event will the minimum risk-weight be less than 20 percent, and can be accounted for as either a "trading" or "available-for-sale" asset. OCC Interpretive Letter No. 912 (July 3, 2001)
- **Private investment fund.** National banks may acquire for their own account beneficial interests in a privately offered investment fund that would invest in loans, cash and cash equivalents, and an offshore fund that invests solely in loans. National banks may hold interests in the Fund either as securities under the reliable estimates standard of Part 1 or as loan participations. OCC Interpretive Letter No. 911 (June 4, 2001)
- **Retention of stock holdings resulting from conversion.** Bank may retain shares of stock that it received as a result of being a policyholder of a mutual life insurance company that converted to stock form. The stock is not an impermissible purchase of stock, but a byproduct of the permissible activity of purchasing life insurance for the bank's needs. Divestiture of the stock will be required only if safety and soundness concerns arise in the future. This is an issue that many banks will face, as increasing numbers of life insurance companies "demutualize." OCC Interpretive Letter No. 905, January 29, 2001
- **Streamlined approval for CDC investments in connection with thrift conversion into national bank.** Federal thrift may retain its existing CDC investments provided

that they qualify as public welfare investments under 12 CFR 24 without a separate filing under 12 CFR 24. The OCC will review the CDC investments in connection with the conversion application and will determine whether the investment is approved in connection with the conversion decision. Letter (June 15, 2001)

- **Trust preferred securities.** Subject to the lending limits of 12 USC 84 and the requirements of Banking Circular 181 (REV), a national bank may purchase, and hold as loans, trust preferred securities that might not qualify as Type III securities. OCC Interpretive Letter No. 908 (April 23, 2001)

## Enforcement Actions

- **Access to former bank insiders' personal banking records under the Right to Financial Privacy Act.** Pursuant to an ongoing investigation into allegations of insider abuse at a now-failed national bank located in Arkansas, the OCC issued subpoenas to obtain the banking records of the bank chairman and his former wife, also a one-time member of the bank's board. Pursuant to the Right to Financial Privacy Act, both the bank chairman and his former wife brought separate actions to quash the subpoenas in the United States District Court for the Western District of Missouri. They claimed, among other things, that the OCC did not have a legitimate law enforcement inquiry, and was seeking their personal bank records to harass and retaliate against them. The OCC's brief and declaration in support were filed with the court *in camera* pursuant to 12 USC 3410(b), so that the chairman and his former wife were unable to learn the details of the OCC's confidential investigation. The OCC's reply was similarly filed *in camera*. Redacted versions of the OCC's papers were provided to opposing counsel. After review of the motion papers, the court denied the motions to quash, and ordered the subpoenas enforced, for the reasons set forth in the OCC's *in camera* filings. *Damian and Susan Sinclair v. United States Department of the Treasury*, 01-MC-9020, 01-MC-9021 (W.D. Mo.)
- **Internet banking.** In connection with a formal agreement between the OCC and the first Internet-only national bank chartered by the OCC, the OCC required the bank to secure sufficient capital to become well-capitalized by dates certain, or to sell, liquidate or merge itself out of existence pursuant to 12 USC 181. The bank was unable to secure sufficient capital and is currently in liquidation. In the Matter of CompuBank, National Association, Houston, Texas, EA #2001-117.
- **Payday loans provided through a third-party vendor.** After an examination of the bank in 2001, the OCC deter-

mined that the bank had risked its financial viability by concentrating in one line of business—payday lending. The OCC also found that the bank had relinquished supervision of the payday lending program to a single third-party originator of payday loans and that the payday lending activities were being conducted in an unsafe or unsound manner. In addition, the bank's payday lending program, violated a multitude of standards of safe and sound banking, compliance requirements and OCC guidance. The bank's deficiencies were heightened by the fact that the bank dramatically increased the amount of Payday loans it made placing the bank, its depositors and the federal deposit insurance fund at unacceptable risk. On December 18, 2001, the bank consented to a cease-and-desist order requiring it to cease all payday lending operations as of a specified date, and institute a series of other corrective actions designed to ensure the safe and sound operation of the bank, and ensure its continued viability. In the Matter of Eagle National Bank, Upper Darby, Pennsylvania (EA #2001-104)

- **Subprime lending operations and other banking business, misleading accounting of assets held for sale.** The OCC initiated a cease-and-desist proceeding to remedy unsafe and unsound practices in connection with a national bank's business of purchasing subprime automobile and manufactured housing loans. During the pendency of this litigation, the financial condition of the bank further deteriorated, and on August 9, 2001, the OCC presented the bank with an immediately effective Prompt Corrective Action Directive pursuant to 12 USC 1831o. The Directive required the bank to develop an acceptable capital restoration plan, correct its safety and soundness deficiencies, and cease any transfer of funds for the direct or indirect benefit of insiders. When the bank failed to submit an acceptable capital restoration plan and had no reasonable prospect of obtaining adequate capital, the OCC found that the bank was "critically undercapitalized," and operating in an unsafe and unsound condition. Among the factors contributing to its unsafe or unsound condition were the bank's inability to generate sufficient earnings to cover expenses, and its failure to maintain the minimum number of directors required under law for a national bank board of directors. As a result, on September 7, 2001, the OCC closed the bank and appointed the FDIC as receiver. In the Matter of Sinclair National Bank, (AA-EC-01-11)
- **Temporary cease-and-desist order addressing multiple unsafe and unsound practices and violations of law.** The OCC placed a temporary cease-and-desist order on a national bank pursuant to 12 USC 1818(c). The temporary order was based on the bank's unsafe and unsound credit practices and numerous violations of the Bank Secrecy Act (BSA). The OCC charged that the

bank's unsafe and unsound practices and violations of law were likely to cause significant dissipation of the bank's assets or earnings, and/or were likely to weaken the bank's condition or otherwise prejudice the interests of the bank's depositors. The OCC also alleged that the bank's books and records were incomplete or inaccurate and that as a result, the OCC was unable to determine the true financial condition of the bank. The unsafe and unsound credit practices included lack of sound credit underwriting and analysis, and failure to timely report credit downgrades and losses on the bank's financial reports. The OCC also alleged that the bank violated laws and regulations, including violations of 12 USC 161 for failure to establish and report litigation reserves and allocated transfer risk reserves on the bank's call reports, violations of 12 CFR 21.21 for failure to establish procedures for monitoring BSA compliance, and violations of 12 CFR 21.11 for failure to detect suspicious activity and file suspicious activity reports. The bank petitioned the United States District Court for the District of Columbia for emergency and permanent relief from the temporary order. The U.S. District Court for the District of Columbia denied the bank's motion for a temporary restraining order for relief from the temporary cease-and-desist order that the OCC issued against the bank. The court held, *inter alia*, that the OCC acted within its statutory authority, that the record supported its action, and that there was a substantial likelihood that OCC would prevail on the merits. *Hamilton Bank, N.A. v. Office of the Comptroller of the Currency*, No. 01-742 (CKK) slip op. (D.D.C., April 13, 2001) (under seal), issued in redacted form, July 18, 2001.

- **Unfair or deceptive acts and practices.** A national bank consented to the issuance of a cease-and-desist order that required restitution of approximately \$3.2 million to its credit card customers and correction of certain credit card marketing practices that the OCC identified as unfair or deceptive in violation of section 5 of the Federal Trade Commission Act. The OCC charged that the bank's practice of "downselling" consumers by prominently marketing to consumers one package of credit card terms, but then approving those customers for accounts with less favorable terms, and the manner in which the approved account was then described, misled customers in violation of the Act. In the Matter of Direct Merchants Credit Card Bank, N.A. (EA #2001-24)
- **Unfair or deceptive acts and practices.** A national bank consented to the issuance of a cease-and-desist order that required the bank to create a reserve to handle restitution payments, make an initial deposit of \$4 million to the reserve fund, and correct certain credit card marketing practices that the OCC identified as unfair or deceptive in violation of section 5 of the Federal Trade

Commission Act. The OCC charged that the bank failed to adequately disclose to consumers that they were likely to receive accounts with little or no initial available credit, in violation of the Act. In the Matter of First National Bank of Marin (EA #2001-97)

- **Use of bank funds for personal benefit of officer.** Two national banks, with total assets of approximately \$180 million, were principally owned and operated by member of a family. An OCC investigation disclosed that one family member, the president of one of the institutions, had repeatedly caused funds from both banks to be used for his personal benefit, or for entities in which he held undisclosed ownership interests. The OCC brought formal charges against him and reached a settlement in which he agreed to a permanent prohibition from banking, a substantial civil money penalty, and a guaranty against future loss to the bank. In the Matter of First National Bank & Trust of Pipestone, Pipestone, Minnesota and First National Bank in Garretson, Garretson, South Dakota (EA #2001-28)

## Regulations

- **Parts 1, 7, and 23: Investment Securities; Bank Activities and Operations; and Leasing.** This rulemaking amended three OCC regulations:
  - 1) revised the investment securities regulation to incorporate the authority to underwrite, deal in, and purchase certain municipal bonds that is provided to well capitalized national banks by the Gramm-Leach-Bliley Act;
  - 2) revised the Bank Activities and Operations regulation to establish the conditions under which a school where a national bank participates in a financial literacy program is not considered a branch under the McFadden Act;
  - 3) revised the OCC's regulation governing bank holidays so that the wording of the rule conforms with the statute that authorizes the Comptroller to declare mandatory bank closings;
  - 4) clarified the scope of the term "NSF fees" for purposes of 12 USC 85, the statute that governs the rate of interest that national banks may charge;
  - 5) simplified the OCC's current regulation governing national banks' non-interest charges and fees;
  - 6) provided that state law applies to a national bank operating subsidiary to the same extent as it applies to the parent national bank; and
  - 7) revised the OCC's leasing regulations to authorize the OCC to vary the percentage limit on the extent to which a national bank may rely on estimated residual value to recover its costs in personal property leasing arrangements. *Federal Register*, 66 FR 8178 (January 30, 2001)
- **Part 3: Risk-Based Capital Guidelines: Capital Treatment of Recourse, Direct Credit Substitutes and Residual Interests in Asset Securitizations.** The OCC, along with the FRB, FDIC, and OTS, amended their regulatory capital standards to address the treatment of recourse obligations, residual interests, and direct credit substitutes that expose financial organizations to credit risk. The final rule treats recourse obligations and direct credit substitutes consistently and adds new standards for the treatment of residual interests, including a concentration limit for credit-enhancing interest-only strips. In addition, the agencies use credit ratings and certain alternative approaches to match the risk-based capital requirement more closely to a banking organization's relative risk of loss for certain positions in asset securitizations. *Federal Register*, 66 FR 59614 (November 29, 2001)
- **Parts 5 and 9: Fiduciary Activities of National Banks.** The final rule addressed the application of 12 USC 92a in the context of a national bank engaging in fiduciary activities in more than one state. It codifies standards contained OCC Interpretive Letters, in which the OCC stated that (a) a national bank authorized to engage in fiduciary activities may act in a fiduciary capacity in any state that permits its own in-state fiduciaries to act in that capacity, including at trust offices, and (b) a national bank that acts in a fiduciary capacity in one state may market its fiduciary services to customers in other states, solicit business from them, and act as fiduciary for customers located in other states. The rule also makes conforming changes to the OCC's rule governing corporate activities. *Federal Register*, 66 FR 34792 (July 2, 2001)
- **Parts 5 and 28: Operating Subsidiaries of Federal Branches and Agencies.** The final rule amends Part 28 to provide that a federal branch or agency may establish, acquire, or maintain an operating subsidiary in generally the same manner that a national bank may acquire or establish an operating subsidiary. This amendment is consistent with the principle of national treatment for foreign banks operating in the United States established by the International Banking Act of 1978. The rule also makes conforming changes to Part 5. *Federal Register*, 66 FR 49093 (September 26, 2001)
- **Part 8: Assessments.** The OCC made three amendments to its assessment rule in 2001 to ensure that assessments of national banks more closely reflect an appropriate allocation of the agency's expenses. The first amendment clarified that the OCC has authority to charge a national bank when the OCC conducts a special examination of a third party that provides services to the bank. *Federal Register*, 66 FR 19901 (May 8,

2001). The second amendment required independent credit card banks to pay an additional assessment component based on off-balance sheet receivables that are attributable to credit card accounts owned by the banks. *Federal Register*, 66 FR 29890 (June 1, 2001). The third revised the assessment formula used to assess all national banks by establishing a minimum base amount for the semiannual assessment for the first assessment bracket (\$0–\$2 million) of the assessment schedule. *Federal Register*, 66 FR 57645 (November 16, 2001)

- **Part 32: Community Bank-Focused Regulation Review: Lending Limits Pilot Program.** This final rule established a three-year pilot program that creates new

special lending limits for 1–4 family residential real estate loans and loans to small businesses. Eligible national banks with main offices located in states that have a lending limit available for residential real estate, small business, or unsecured loans that is higher than the current federal limit may apply to take part in the pilot program. The OCC will review and evaluate national banks' experience with the special limits over the three-year pilot period and determine at the end of the pilot whether to extend the program and retain, modify or rescind the exceptions. The final rule also permanently modifies the lending limit exemption for loans to or guaranteed by obligations of state and local governments. *Federal Register*, 66 FR 31114 (June 11, 2001)

# ***Chief of Staff and Public Affairs Department***

## **Program and Management Accountability Division**

The Program and Management Accountability division (P&MA), headed by the director for Program and Management Accountability, is comprised of three units: Quality Management, Program Analysis, and the OIG/GAO Liaison function. The division's primary mission is to establish and maintain an internal control environment that achieves the following:

- Effectiveness and efficiency of operations
- Reliability of financial reporting and
- Compliance with applicable laws and regulations

An equally important ongoing objective is to provide all OCC managers with the guidance and support they require to identify and correct weaknesses in planning, controlling, and accounting for program operations and resources.

In doing so, the P&MA identifies major issues for review by the Comptroller and the chief of staff and oversees the necessary analysis to provide the context for decision options. Additionally, the division identifies major options or alternatives for the budget review process, develops multi-year plans for analysis of issues that will need decisions in future years, and reviews program performance and recommends ways to ensure more efficient use of OCC resources and the successful implementation of programs and policies.

### **Quality Management**

- Ensure that management officials establish and maintain a set of product quality controls, management controls, and performance measures.
- Encourage organizational performance excellence through a regular program of quality management reviews, lesson learned reviews, and other continuous improvement activities and studies, as directed by the Comptroller.

### **Program Analysis**

- Ensure OCC programs align with its strategic interests and priorities by analyzing OCC's budget and providing input into the strategic planning process.

- Evaluate the efficiency and effectiveness of programs and recommend alternatives or solutions.

### **OIG/GAO Liaison**

- Serve as the liaison with the Department of the Treasury Office of the Inspector General (OIG) and the United States General Accounting Office (GAO).
- Provides authoritative and technical advice to senior management and OCC staff on audits and investigations.

## **Workplace Fairness and Alternative Resolutions Division**

The Workplace Fairness and Alternative Resolutions division is responsible for assisting the Comptroller and the executive committee in establishing a workplace environment that capitalizes on fairness and encourages every employee to work towards their maximum potential. The division assists in developing policy, provides guidance and direction on equal employment opportunity (EEO) and fair workplace principles, and oversees the OCC's EEO program to ensure equal employment and fair treatment of employees.

In calendar year 2001, the Workplace Fairness and Alternative Resolutions division continued to monitor and analyze the OCC's EEO program to ensure compliance with statutory, regulatory, and OCC policy requirements. The division completed the annual Affirmative Employment Program Accomplishment Report and Plan Update; effectively administered the complaint process and alternative dispute resolution (ADR) program; and monitored, reviewed and analyzed employee development programs and other personnel processes and activities. The division's director continued to provide quarterly status reports to the Comptroller, executive committee, and senior managers. The OCC also hired a new director, with an extensive background in EEO and ADR programs, to assist the Comptroller and the executive committee in achieving the agency's objectives of a diverse workforce and establishing an environment that honors fair workplace principles.

## **Public Affairs Department**

### **Communications Division**

The Communications division provides publishing, communications, and information services to the OCC. It supports the broader Public Affairs mission to inform internal and external audiences about the national banking system and the OCC's supervisory policies and activities. Communications provides a number of services in sup-

port of OCC's mission. The Communications division carries out its responsibilities through the following programs:

- Publishing Services provides editing services and publishes print and electronic material in support of the agency's mission.
- Internal Communications ensures that all OCC employees are aware of current policies and programs, and that major initiatives and messages are communicated on an agency-wide basis through "What's New at the OCC" postings on the intranet, the *SuperVisions* employee newsletter, and other vehicles.
- Disclosure Services and Administrative Operations is responsible for handling most requests for information through the Freedom of Information and Privacy acts. In addition, this unit operates the Public Information Room, certifies copies of bank documents, and oversees the agency's print budget, the annual publications printing plan for all print products, as well as the fulfillment and warehouse contract for print material.
- Publications and Media Design Services unit is responsible for working closely with agency departments to produce and design products for published materials and other multimedia presentations for the agency. This unit also oversees the printing of OCC material and ensures its distribution to national banks and other internal and external audiences.

## Community Bank Activities Division

The Community Bank Activities division acts as the in-house contact point on regulatory matters concerning community banks. Community Bank Activities fulfills its responsibilities to community banks and to OCC personnel by:

- Serving as a conduit and clearinghouse for information on community bank issues.
- Facilitating internal, multi-level sharing of information on community bank activities.
- Identifying and providing additional services that add value to nationally chartered community banks.
- Identifying and addressing opportunities to reduce regulatory burden for community banks. As appropriate, Community Bank Activities makes recommendations for regulatory and supervisory changes.

## Executive Communications

As the unit responsible for preparing the Comptroller's speeches and other written messages, Executive Communications coordinates appearances with event organizers, develops the content of individual speeches, and

provides speechwriting assistance to other OCC officials. Executive Communications also develops other written products for the Comptroller and other OCC officials that are intended for large audiences

## Banking Relations

Banking Relations is the OCC's primary contact point for bankers, trade association executives, state bank supervisors, and other industry representatives on issues involving OCC policy. The unit builds and maintains bridges with these and other financial services industry stakeholders to facilitate an efficient, timely, and constructive exchange of information integral to OCC policy development and implementation.

Among other activities, Banking Relations:

- Directs, coordinates, and monitors non-supervisory outreach events involving OCC headquarters or field staff. These events include participation in seminars, meetings, conventions, banker-specific education programs, and other outreach initiatives involving participants from the financial services industry, including support for annual banker association visits to Washington.
- Develops, directs, coordinates, or manages outreach materials and facilities including National BankNet (the OCC's extranet for national banks), and various audio-visual and text-based materials, such as the "Value of the National Bank Charter" outreach package.
- Coordinates and monitors requests for OCC participation in industry events such as seminars, meetings, conventions, and banker-specific education programs.
- Plans and organizes sessions that bring together OCC senior managers with industry and trade association leaders to discuss banking industry trends, emerging issues, and other matters of mutual concern. One major initiative in this area is the "Meet the Comptroller" roundtables sponsored by Banking Relations.

## Press Relations Division

Press Relations works to increase public awareness and understanding of the OCC and the national banking system by providing accurate, timely and comprehensive information to the public, primarily through the media. Press Relations prepares and issues press releases, organizes and conducts media briefings, responds to queries from the media in the United States and abroad, and arranges interviews for reporters with OCC officials. Press Relations also distributes news releases and other information through a subscription e-mail service that is available to anyone with access to the Internet.

# **Chief National Bank Examiner Department**

The Chief National Bank Examiner department, headed by the senior deputy comptroller and chief national bank examiner and comprised of the Core Policy, Credit Risk, and Risk Evaluation departments, formulates and disseminates the OCC's supervision policies to promote national banks' safety and soundness and compliance with laws and regulations. The department issues policy, guidance, and examination procedures related to national banks' asset management, bank technology, capital markets, credit, and consumer and community compliance activities. The department assists in providing specialized training and examination support to OCC examiners. The department also coordinates OCC participation in Federal Financial Institutions Examination Council (FFIEC) activities and its task forces.

## **Core Policy Department**

The Core Policy department is the focal point for the OCC's core policy platforms that govern how the OCC supervises banks. These core policies and activities include the OCC's supervision by risk philosophy and its supporting systems and core examination procedures for large and community banks; policies related to general bank management and boards of directors; and accounting, reporting, and disclosure requirements for national banks. The deputy comptroller for Core Policy chairs the Supervision Policy committee, and other forums for obtaining input on supervision.

The department consists of two divisions: the Core Policy Development division and the Office of the Chief Accountant.

### **Core Policy Development Division**

Core Policy Development establishes risk-focused policies and standards for the supervision of national banks. The group administers the supervision by risk process; develops and coordinates OCC supervision policy issuances and publications; and develops and distributes automated tools and models used in the examination process.

The risk-focused supervisory process includes a three-level supervision process, consisting of core knowledge, core assessment, and expanded procedures for specific bank activity. The benefits of this effort include: the enhancement of bank safety and soundness through greater integration of supervision by risk into the examination pro-

cess; a more efficient deployment of OCC resources, while continuing to minimize industry burden; and increased efficiency and consistency through use of a risk-based examination approach. Supervisory topics under this division's responsibility include issues pertaining to bank management and the board of directors, bank insurance activities, audit programs and internal control systems, and overall bank supervision and risk management processes.

### **Office of the Chief Accountant**

The Office of the Chief Accountant coordinates accounting and financial reporting issues, interprets, and develops guidance on generally accepted accounting principles related to banking, and identifies emerging accounting issues. Through representation on the FFIEC's Task Force on Reports, the office jointly develops changes, instructions, and interpretations for interagency bank reports, such as the Consolidated Reports of Condition and Income (call report). The office also participates on the Basel Committee on Banking Supervision to seek harmonization of international accounting standards. Further, the financial information requirements of the Securities Exchange Act of 1933, as it applies to national banks under 12 CFR 11 and 12 CFR 16 are administered by the office. The office's objectives are accomplished through staff located at headquarters and district locations. Training is provided to examiners and others as necessary.

## **Credit Risk Department**

The Credit Risk department is responsible for identifying and analyzing emerging issues and trends that affect bank lending activities and credit risk in the national banking system, as well as developing policy guidance to address these issues. The department sponsors the National Credit Committee and the Retail Credit Committee. The membership of these committees consists of field examiners directly involved in the supervision of community and large banks as well as economists and community development lending specialists. These committees assist the division in identifying emerging credit risks and supporting policy development initiatives. The department also formulates industry advisories and policy guidance for bankers and examiners on the following subjects: asset based lending; reporting to credit bureaus, and third-party credit risk. The Credit Risk department identifies training needs for field staff and formulates the appropriate training. The Credit Risk department continued to be actively involved in advancing sound credit risk management principles both domestically and internationally.

The department also provides substantial staff assistance in support of district and Large Bank Supervision priorities

by participating in on-site examinations of credit risk/loan portfolio management, leading shared national credit teams, and implementing KMV analytics and Credit Analytics JV to support systemic credit risk identification and monitoring.

## **Risk Evaluation Department**

The deputy comptroller for Risk Evaluation chairs the OCC's national risk committee (NRC) and oversees the OCC's Risk Evaluation (RE) department as well as the Asset Management (AM) and Treasury and Market Risk (T&MR) divisions.

### **National Risk Committee/Risk Evaluation Department**

The national risk committee (NRC) identifies primary and emerging risks to the national banking system, stays abreast of evolving business practices and financial market issues, informs the OCC's executive committee of material risks facing the national banking system, and makes recommendations as to appropriate supervisory responses. The NRC also coordinates national and district risk committee initiatives and communicates risk issues and OCC supervisory efforts to address those issues.

The NRC generally meets every other week, and its members include senior representatives from key areas across the OCC. The Risk Evaluation department is responsible for supporting NRC initiatives. In addition to administering regular NRC meetings, the division assists in the analysis of systemic safety and soundness issues. Toward that goal, the RE department maintains a "radar screen" of issues that are sources of risk to the safety and soundness of the national banking system. This radar screen is used in NRC discussions with the Executive Committee, and transmitted to OCC examiners.

The Risk Evaluation department also assists in the NRC's regular briefings to inform the OCC's executive committee of material risks facing the national banking system. Some of the major issues addressed by the NRC during 2001 included the condition of the banking industry, the quality of credit underwriting and risk management practices, domestic and international macroeconomic trends, emerging technologies and data security risks, interest rate risks, securitization activities and residual valuation risks, and liquidity risks. The NRC also made recommendations on the appropriate supervisory actions to take in response to these issues, and monitored and reported on the OCC's supervisory efforts to respond to such risks.

As an accompaniment to the regular executive committee briefings, the RE department circulates an ongoing series of short memos to examiners, "Economic and Systemic Issues Affecting the National Banking System." Specific issues analyses and OCC responses are available to OCC examiners on the agency's intranet. For external audiences, RE established and maintains an extensive outreach program and public speaking schedule. Audiences included domestic and international commercial bankers, as well as domestic and international regulators.

National initiatives are coordinated with OCC district initiatives through RE's ongoing communications with district risk committees. These efforts are undertaken to preclude redundancies, to encourage the sharing of ideas throughout the OCC, and also to serve as a resource to district risk committees.

The "Canary Project" began in 1999 in response to the Comptroller's request that the OCC's diverse early warning tools be inventoried, enhanced, and organized into a productive early warning system that could be consistently applied nationwide. Risk Evaluation coordinated this effort. "Community Bank Canary" was launched in early 2000, and its primary purpose is to identify banks with potentially high or complex amounts of financial risk. There are five sets of tools available to aid in this analysis:

1. Financial risk measures and benchmarks have been established for credit risk, interest rate risk, and liquidity risk.<sup>1</sup> The financial measures are leading indicators of risk taking that are designed to be concise and intuitive. These measures are referred to as static measures because they refer to a bank's financial risk position at a given point in time. Static benchmarks identify banks with potentially high financial risk positions. Canary assumes an increased risk profile when a bank exceeds three or more static benchmarks within a risk category. Evaluating bank financial positions relative to the benchmarks facilitates early warning analysis by highlighting banks that may need additional supervisory analysis or attention to ensure bank risk management processes are commensurate with potentially high credit, interest rate, and/or liquidity risk positions.

For each financial risk measure, a rate of change (ROC) measure has also been calculated. ROC measures focus attention on rapid movement off of a material starting point, rather than focus solely on a static position. This measure helps to identify those banks moving rapidly toward a financial risk position, but is only calculated for those banks already at a meaningful starting point. ROC ratios are only calculated for

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<sup>1</sup> The measures are calculated from Call Report data.



those banks that exceeded the median for a particular static measure four quarters ago. Therefore, the ROC is calculated as either the four-quarter percentage change or four-quarter difference in the static measure, depending on the ratio.<sup>2</sup>

2. Predictive models will assist examiners in assessing the future effects of changing economic or other conditions that may affect the bank. Predictive models will help examiners to estimate a bank's credit risk, forecast future bank performance or examination ratings, and look for rising external risk that may affect bank earnings. Internal models include PGRM (peer group risk models), a series of econometric models designed to project the potential impact of different economic scenarios on future earnings for similar asset-based bank peer groups. Bank risk calculator is another analytical tool that uses call report data and economic data for bank market areas to classify the overall risk in individual banks and groups of small banks. The purpose of this tool is to provide supervisory staff with an indication of rising risk external to the bank before its effects are evident on the bank's books.
3. External models include links to KMV reports and the Federal Deposit Insurance Corporation's (FDIC's) SCOR (statistical CAMELS offsite ratings), which, using 13 financial ratios, forecasts composite and component ratings and assigns a probability that the institution's CAMELS ratings will be downgraded.
4. Several research tools are complements to the quantitative measures to assist examiners in assessing credit risk. The loan concentration tool is used to produce a list of all the loan concentrations in a bank by NAIC code as of its last examination, or alternatively, to produce a list of banks with concentrations in a selected NAIC code. The commercial real estate Web site contains analysis, data and forecasts on national and local commercial real estate markets and analyses on real estate investment trusts. Market spillover enables examiners to investigate the direct and indirect linkages between an individual bank and the markets in which it operates. These markets can be local, regional, national, global, or electronic.
5. Market barometers are indicators that provide a broad sense of liquidity in the capital markets, perceptions on credit risk, and a general view of public confidence. Specifically, these indicators include trends in U.S. corporate debt spreads, emerging mar-

ket debt spreads, equity market trends, interest rate swap spreads, and short-term money market spreads. Income and consumption data are also available. New barometers will be added and others removed over time as the environment changes.

Recognizing that a different "Canary" system was needed for large banks, we started work on "Large Bank Canary" in the second quarter of 2000 with the assistance of several large bank teams, and implemented it in the second quarter of 2001. Its components are similar to "Community Bank Canary." For the large bank population, static benchmarks have been developed for financial risk measures of the 5 financial risks, strategic risk, and securitization activities. A separate historical data page contains balance sheet and income statement figures and ratios. In addition, summary "Canary" reports were created, and include a cover page with summary information from markets, models, and internal sources for all in the large bank program, and a financial snapshot with summary balance sheet and income statement items for each large bank.

The RE department also served on working groups to identify systemic risks and develop supervisory policies on national bank vulnerabilities to financial risks, as well as early warning systems to identify emerging risks in the banking system. The department also assisted with various efforts conducted by the President's Working Group on Financial Markets.

## Asset Management Division

The Asset Management division develops OCC policy for the supervision of national banks' asset management services. Financial services included under the umbrella of asset management are fiduciary and investment advisory services, retirement services, retail securities brokerage, and securities custody and transaction processing.

During 2001, the division worked on a number of projects. The division completed and issued the "Investment Management Services" (August 2001) booklet and the "Custody Services" (January 2002) booklet of the *Comptroller's Handbook*. In addition, members of the division contributed to other booklets of the *Comptroller's Handbook* series including the "Insurance Activities" (June 2002) booklet, and the "Community Bank Supervision" (August 2001) booklet. Staff spearheaded the effort to revise the FFIEC Consolidated Reports of Income and Condition to include the "Schedule RC-T" for the reporting of trust information.

In conjunction with other OCC divisions, Asset Management participated in developing amendments to 12 CFR 9 to allow for national banks to provide multistate trust activities. Staff assisted in the development of the FFIEC's

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<sup>2</sup> For static measures in which a greater financial risk position is assumed with growth, a four-quarter percentage change is used. For static measures in which a greater financial risk position is assumed with a decline, a four-quarter difference, measured in basis points, is used.

question and answer document concerning Part 14 of GLBA addressing insurance. Staff reviewed and commented on a number of new trust bank charter applications. In addition, staff supported the legal department with its responses to requests for interpretations dealing with asset management issues.

The Asset Management staff made presentations at industry meetings, programs, and seminars. Also, the division staff participated as instructors at OCC and FFIEC training programs. Through out the year, the division organized a number of topic-specific conference calls to share information with OCC field examiners. In April 2001, the division sponsored a meeting of 120 asset management examiners.

Asset Management continues to communicate industry news to asset management examiners by periodically issuing the "Asset Management Digest" and maintaining the Asset Management intranet site. Staff members participated in asset management examinations of national banks, resolved consumer complaints, and responded to many inquiries from the industry.

## Treasury and Market Risk Division

The Treasury and Market Risk (TMR) division's primary responsibility is the determination of policy direction with respect to capital markets activities. This includes the OCC's supervisory efforts regarding risk management of interest rate exposures, liquidity positions, trading and dealing exposures (including derivatives and emerging market assets), securitization activities and mortgage banking. The TMR division accomplishes this through regular monitoring of institutions individually and systemically with regard to specific capital markets activities, by issuing examiner guidance in the form of handbook sections and banking bulletins, and by conducting internal training on related capital markets issues. TMR staff participate in mission-critical examinations and represent the OCC at numerous internal and external conferences, speaking about timely regulatory issues.

Highlights of the key accomplishments for TMR in 2001 include:

- *Interest rate risk.* TMR continued the implementation of an interest rate risk database to collect information gathered during examinations. Additions to the database are made each time OCC examiners evaluate the interest rate risk activities at institutions with moderate or high interest rate risk profiles. The types of information collected include: risk tolerances, risk management tools used to control interest rate risk, and risk measurement tools used to quantify interest rate risk

exposures. The interest rate risk database enables OCC field examiners and staff to evaluate risk management practices for national banks individually and systemically.

- *Liquidity.* TMR issued two examiner guidance documents in 2001 addressing risk management aspects of liquidity. In February 2001, TMR issued the "Liquidity" (February 2001) booklet. This booklet provides clarification of OCC expectations regarding management of liquidity risk and highlights changes in the liquidity risk profiles of banks over the course of the last decade. In May 2001, TMR issued the "Joint Agency Advisory on Brokered and Rate-Sensitive Deposits" (OCC Advisory Letter AL 2001-5, May 11, 2001). This interagency advisory reminds bankers of the risks associated with reliance on brokered and other rate-sensitive deposit providers. Also in May 2001, TMR sponsored two Liquidity telephone seminars for community bankers. OCC speakers participating in the telephone seminars articulated aspects of the current operating environment that expose banks to higher levels of liquidity risk and expectations for a sound risk management process. Approximately 500 community banks were represented in the two telephone seminars. Additionally, TMR continues to maintain internal reporting systems designed to monitor liquidity risk management in large banks.
- *Trading.* In 2001, TMR prepared four issues of the "Derivatives Fact Sheet," a comprehensive package of publicly distributed bank derivatives data and information. The distribution of this package of spreadsheets and narratives has proven to be a useful mechanism for increasing transparency with regard to bank derivatives and trading activities.
- *Securitization and mortgage banking.* Throughout 2001, TMR has participated in domestic and international efforts to address regulatory capital issues associated with securitization activities. TMR assisted other OCC divisions in developing and publishing the "Recourse, Direct Credit Substitutes and Residual Interests" final rule in November 2001. This rule articulates capital requirements for banks engaged in securitization activities. Throughout 2001, TMR continued efforts to monitor and evaluate the impact of asset securitization on bank safety soundness. This effort included inter-agency on-the-job examiner training designed to develop and expand examiner technical skills in the area of securitization. TMR also sponsors a monthly inter-agency working group that provides bank regulatory staff an opportunity to discuss outstanding issues.
- *Training and outreach.* During 2001, TMR sponsored two training sessions for lead capital markets examiners responsible for supervising activities in national banks. TMR also provided specialized training in the

areas of asset and liability management, interest rate risk modeling, and financial mathematics. In October 2001, TMR sponsored the annual Capital Markets seminar for 175 examiners who primarily perform capital markets supervision work. The agenda for this conference included breakout sessions with internal and external speakers addressing securitization activities, asset and liability management processes, interest rate

risk modeling, derivatives and trading activities, and investment securities analysis.

TMR staff represented the OCC at numerous external conferences on timely regulatory issues such as: derivatives trading, hedge fund risk management, asset securitization, interest rate risk management, and liquidity risk management.

## ***International and Economic Affairs Department***

The senior deputy comptroller for International and Economic Affairs is responsible for managing the agency's economic research and analysis program; providing policy advice on risks in the banking industry, bank capital requirements, and international banking and financial matters; and formulating policies and procedures for the supervision and examination of federal branches and agencies of foreign banks. The department also provides expert advice to examiners in the assessment of banks' risk measurement methods. These activities are carried out through the International Banking and Financial Analysis and the Economic and Policy Analysis departments. The deputy comptroller for Global Banking and Financial Analysis is responsible for the International Banking and Finance and the Financial Analysis divisions. The deputy comptroller for Economic and Policy Analysis is responsible for the Policy Analysis and the Risk Analysis divisions. The director of the Capital Policy division reports directly to the senior deputy comptroller.

### **Global Banking and Financial Analysis Department**

The Global Banking and Financial Analysis department consists of two divisions: the International Banking and Finance and the Economic Analysis divisions. The special advisor for global banking, who is responsible for identifying and assessing emerging international electronic banking issues, reports to the deputy comptroller.

### **International Banking and Finance Division**

The International Banking and Finance (IB&F) division supports OCC supervision of the federal branches and agencies of foreign banks in the United States and serves as the focal point of OCC relationships with the international financial community and foreign supervisory organizations. The division provides policy advice and technical expertise and analysis to the OCC on international banking and financial matters, including foreign regulatory trends, country risk evaluation, and the evolution of foreign financial systems, institutions, and supervisory and regulatory processes.

The IB&F division conducts research and analysis on international bank supervision and regulatory matters. IB&F also supports OCC examiners and other staff engaged in domestic and international supervisory activities, as well

as assists in the development and implementation of OCC banking supervisory and regulatory policies and procedures.

IB&F coordinates the Federal Branch program and OCC's participation on international working groups including the Basel Committee on Banking Supervision and the Joint Forum on Financial Conglomerates. The department also provides technical support to the Treasury Department on the G-7 summit process.

The division conducts analysis of global economic trends and provides applied financial and economic analysis of key issues that may affect banking industry performance and, consequently, OCC supervisory policy and operations. The unit prepares the deputy comptroller's quarterly press conference on the condition of the banking industry and the quarterly OCC *Quarterly Journal* article on the condition of the banking industry.

As the OCC representative on the Interagency Country Exposure Review Committee (ICERC) of U.S. bank regulatory agencies, IB&F develops and analyzes information on and assesses risk in international lending, including the evaluation of transfer risk associated with exposures to countries experiencing difficulty servicing their external debt. Through IB&F, the OCC provides the permanent ICERC secretariat and rotates as chair of the ICERC every third year.

The IB&F staff coordinates requests from around the world to provide technical assistance including visits and training sessions hosted by IB&F staff in Washington, as well as participation by OCC on technical assistance missions in the requesting country.

### **Financial Analysis Division**

The Financial Analysis division is responsible for analysis of bank condition and performance broadly defined. This includes assessments of financial market developments, international influences, trade-related spillovers, nonbank industry developments, and regional and macroeconomic concerns. The division provides direct analytical support to the national risk committee, national credit committee, Large Bank senior staff and examiners-in-charge (EICs), and district staff.

The division develops and maintains information systems and tools necessary for the delivery of its analytical products. The primary systems include: the integrated banking information system—bank call report data, supervisory data on national banks, branch data, and holding company data; the economic information system—economic and financial data and graphics; nonbank industry and company data—and several tools and techniques to

evaluate risks in the banking system as well as to assist examiners in their individual bank risk assessments.

The division provides economic, financial, and banking analysis to the assistant deputy comptrollers for community banks and the Large Bank EICs. The division produces regular reports on macroeconomic and regional economic trends, and reports on commercial real estate for use by examiners and members of the national risk committee and national credit committee. The division staff provides extensive support to bank outreach meetings and efforts and to special needs of the district and large bank staffs. The division is directly responsible for special in-depth industry studies in areas with high bank-loan concentration and potential vulnerabilities, including health care, oil, retail credit, consumer credit, commercial real estate, and agriculture.

## **Capital Policy Division**

The Capital Policy division identifies issues and develops policies to address risks to bank capital. This includes developing and maintaining capital regulations and interpretations as well as dividend, income, and expense policies. This work is often done in collaboration with other units of the OCC as well as other U.S. and international regulatory agencies.

The division ensures that capital policies are effectively communicated and implemented and provides technical assistance to examiners, bankers, and advisors on risk-based capital issues. The division also coordinates the work of the OCC's capital steering committee.

In 2001, Capital Policy has dedicated a significant amount of staff resources to coordinating the OCC's contribution to the ongoing efforts to revise the 1988 Basel Capital Accord and to implementing changes in the OCC's risk-based capital regulations in coordination with the other banking agencies. The division has also provided guidance and interpretations of the risk-based capital rules to examiners, banks, and the financial community.

The revision of the 1988 Basel Capital Accord, which provides the foundation for minimum capital requirements for banks in the United States and around the world, is a comprehensive and global effort to align capital requirements more closely to the underlying credit, market, and operational risks. Capital Policy staff chaired or participated in several of the Basel Committee's capital working groups and task forces.

The division was instrumental in finalizing or advancing several proposed interagency changes to the risk-based capital regulations. The final rule for recourse, direct credit substitutes, and residual interests was published in No-

vember 2001. The rule better aligns regulatory capital with the risks inherent in securitization activities by providing more consistent risk-based capital treatment for recourse obligations and direct credit substitutes and permits the use internal and external credit ratings under certain circumstances. The division also assisted in the completion of a capital rule for non-financial equity investments, which was published in January 2002.

The Capital Policy division drafted several significant risk-based capital interpretations, two of which the OCC issued jointly with other banking agencies. In a joint interagency statement, the OCC determined that the new subordinated debt instruments issued by Fannie Mae and Freddie Mac should be risk-weighted at 20 percent. In a joint statement with the Federal Reserve, the OCC opined on the market risk treatment for a series of credit derivative structures.

Throughout the year, the Capital Policy division provided guidance and interpretations with respect to innovative Tier 1 instruments, credit derivatives, securitizations and recourse issues and other risk-based capital issues.

## **Policy Analysis Division**

The Policy Analysis division conducts analysis and research that contribute to the development of OCC policy positions and to the understanding of the impact of policies on the performance of the banking industry. Division staff participates on the capital steering committee and the functional supervision working group. The Policy Analysis division comprises two units, Special Studies and Policy Development.

### **Special Studies**

The Special Studies unit's work includes short-term analyses and longer-term research projects. The unit is focused on the impact of the adoption of new technology on the performance of national banks, the effectiveness of capital regulations, the usefulness of market information for bank regulation, the role of banks in serving the market for small business credit, and demographic factors that contribute to whether one uses a bank to obtain financial services. It also made contributions to the OCC's efforts to revise its assessment schedule and improve its forecasts of assessment revenue. Special Studies staff serve on the OCC's Internet banking working group, an interdisciplinary group that reviews corporate applications that raise issues regarding the application of technology to banking.

### **Policy Development**

The Policy Development unit conducts short-term analyses of public policy issues related to banking, and presents the results of its work in memoranda, white papers

and presentations for general audiences within the OCC. The unit also prepares economic analyses of the effect of regulations on banks and other private sector entities. Recent projects have included the development of alternative solutions to the inherent flaws in the current system for the funding of bank supervision, a review of the FDIC's options paper on deposit insurance reform and preparation of a comment letter to the FDIC, and analysis of the relationship between bank location and P/E.

## **Risk Analysis Division**

The Risk Analysis division provides applied, sophisticated knowledge of quantitative economic modeling to bank examiners and policy makers in the OCC. The economists in the division provide direct support to examiners and policy makers on risk modeling, decision modeling, and modeling to detect compliance with fair lending laws. The outlet for this support is direct participation in exams, the construction of models and tools for use by examiners, consultation with examiners and policy makers, educational outreach and training of examiners, and written materials for use by examiners and policy makers. The provision of expertise by the division requires the pursuit of a research agenda that maintains and improves knowledge and skill in modeling. The division is comprised of three units, Market Risk Modeling, Credit Risk Modeling, and Financial Access and Compliance.

### **Market Risk Modeling**

The Market Risk Modeling unit's work deals both with market risk as the agency defines it (financial risk of the marked-to-market portion of the business—primarily the trading desk, including derivatives trading) and interest rate risk (market risk in the banking book, which is not marked-to-market). The major outlets for work in this area are examinations in which examiners are assisted in evaluating the adequacy of the sophisticated quantitative models used by banks. For example, a large part of the unit's work in recent years has been the evaluation of the risk measurement systems for bank trading desks, called value-at-risk models. The unit also performs exams to evaluate the models that banks build to price their over-the-counter derivatives or to value assets with a focus on

evaluating models that banks build to estimate their exposure to interest-rate risk. For large banks, this means reviewing banks' own models. For community banks lacking their own models, the unit offers examiners a simple interest-rate-risk-benchmarking tool.

### **Credit Risk Modeling**

The Credit Risk Modeling unit provides exam support on models used to make credit decisions, generally known as credit scoring, and models used to evaluate credit risk. Credit scoring, which is the use of statistical models to make decisions, has been a traditional outlet for the unit's services, and it continues to be a growing source of demand. That work encompasses the use of scoring in retail lending and in commercial lending, and has been a traditional outlet for the division's expertise. A growing portion of the division's attention is focused on models used to evaluate credit risk, including the portfolio credit models used in bank economic capital models. One specific type of portfolio credit model is the proposed internal risk-based approach to Basel risk-based capital reform. The unit is devoting great effort to preparing for the implementation of those changes.

### **Financial Access and Compliance**

The Financial Access and Compliance unit provides specialized technical and analytical expertise in economics and statistics to assist the OCC in identification, characterization, and analysis of fair lending compliance risk in the national banking system. Economists are assigned to OCC examination teams to assist with evaluating banks' compliance with fair lending rules. The unit also conducts research to refine the statistical techniques and analysis used to support OCC examinations and to address OCC policy questions related to access to financial services. Recent access-related topics have included predatory lending, the profitability of CRA lending, and the financial needs of households that do not have banking relationships (the "unbanked"). In addition, the unit provides support to policy development in the compliance area. Recent projects have included the large bank CRA project and development of the agency's procedures to screen banks for fair lending risk.

## ***Large Bank Supervision Department***

The Large Bank Supervision department supervises all national bank subsidiaries of the following 22 companies: ABN AMRO North America, Inc; Bank of America Corporation; Bank One Corporation; Banknorth Group, Inc.; Barclays Global Investors; J.P. Morgan Chase & Company; Citigroup, Inc.; First Tennessee National Corporation; FleetBoston Financial Corporation; Huntington Bancshares, Inc.; KeyCorp; MBNA Corporation; Mellon Financial Corporation; National City Corporation; National Commerce Financial Corporation; PNC Financial Services Group, Inc.; U.S. Bancorp; Union Bancal Corporation; Union Planters Corporation; Wachovia Corporation; Wells Fargo & Company; and Zions Bancorporation. As of September 30, 2001, these 22 holding companies held assets of \$4.2 trillion. Under these companies are 119 national banks (including 21 national trust charters) with total assets of \$2.9 trillion. These banks represent 82 percent of the total assets of the national banking system, but only 5 percent of the charters.

Three deputy comptrollers head the department, each managing a portfolio of banks and directly supervising

examiners-in-charge of the respective institutions. The field examining staff is divided into four geographically based teams. These teams consist of field examiners who support the continuous supervision efforts in each bank. The department also maintains another team in London. That team provides examination and supervision support for European affiliates and branches of national banks. It plays a major role in monitoring developments in the European financial markets.

The department's philosophy of continuous supervision provides for assessing the condition and risk profile of the bank and taking appropriate supervisory and regulatory action when necessary. To implement this philosophy, supervisory strategies are developed annually for each large bank company and are updated quarterly. Strategies are continuous and relate closely to each company's condition, risk profile, economic factors, and marketplace developments. A major component of each strategy is the communication plan. This plan must maintain a strong, consistent, and frequent two-way dialogue with bank management and its board of directors. Areas of special supervisory emphasis in 2001 included supervisory initiatives in credit underwriting and allowance for loan and lease loss reserve adequacy.

## ***Office of Management and Chief Financial Officer***

The senior deputy comptroller (SDC) for Management and chief financial officer is responsible for efficiently and effectively deploying the management functions of the OCC. In this capacity the SDC is assisted by deputy comptrollers that oversee the functional areas of Workforce Effectiveness, Financial Management, Management Services, and Continuing Education.

In 2001, the SDC focused on continuing efforts to strengthen OCC's financial management and internal controls and modernize OCC's financial management and related systems.

### **Workforce Effectiveness Department**

The Workforce Effectiveness department (WFE) delivers services in the areas of human resources operations, policy development and program integrity, organizational performance, compensation and benefits, workforce diversity, and consulting services on organizational performance.

Significant undertakings and accomplishments during 2001 include:

- As part of the restructuring of OCC's administrative management functions, Workforce Effectiveness was established as one of three major operating units within the new Office of Management and Chief Financial Officer. Within WFE, organizational changes were implemented to strengthen certain aspects of human resource functions and improve service and accountability. They include consolidating national recruitment, affirmative employment, special emphasis, and diversity programs into a single unit reporting to the new deputy comptroller for Workforce Effectiveness and establishing a customer service unit to move toward a one-stop service model for OCC employees and to improve the resolution of customer complaints.
- Extensive resources were devoted to implementing OCC's new compensation and performance management programs. Staff provided on-going advice and assistance to managers and employees on various aspects of the new programs, participated in designing and delivering training for managers, and refined and updated policies and procedures. The OCC adopted a broad pay-band compensation structure with variable performance-based merit pay increases and more pay

tools to recognize job growth. OCC's new performance management program strengthens the performance planning process so that employee performance objectives and performance measures are defined more clearly upfront. The program also provides more balance and accountability for both what is achieved and how it is achieved.

- The Employment Policy and Program division updated all other human resources policies affected by the changes to OCC's compensation and benefits programs, such as merit promotion. The division staff also presented proposals to the executive committee for enhancing various work life programs and, as a result of the committee's decisions, prepared updated work life program policies and procedures. The Comptroller announced enhancements to OCC's work life program in early 2002.
- The Employment and Diversity division coordinated the preparation of OCC's "Strategic Plan for Active Recruitment, Retention, and Career Development" (SPARC). The Comptroller announced SPARC in late 2001. The Employment and Diversity division will play a key role in implementing SPARC and provide guidance to managers and employees on the overriding principles and programs relating to a truly diverse workforce.
- WFE participated in the Department of the Treasury's phased implementation of "HR Connect," a Treasury-wide human resources system that streamlines and reengineers human resource processes using state-of-the-art technology. WFE staff participated in various aspects of designing, developing, testing, and implementing the new system.
- WFE contributed to the agency's response to the circumstances of September 11, 2001, and the anthrax threat, on both an immediate basis and with an eye toward longer term strategies needed to deal with future emergencies. On-site counseling services were quickly made available to staff in New York and Washington, with additional counseling available to OCC staff nationwide. Mechanisms were put in place to ensure that employees concerned about anthrax exposure could be tested. A compendium of resources to help employees deal with traumatic events was placed on OCCnet.
- Customer Service and Organizational Performance devoted extensive resources to establishing the infrastructure, policies, and practices needed to support the new customer service unit. Staff worked on developing, piloting, and refining an automated knowledge database and system for tracking and responding to customer inquiries and complaints. The system will be fully deployed in early 2002.



## Financial Management Department

The mission of the Financial Management (FM) department is to provide leadership to promote the efficient management of OCC's resources and assets, quality financial services to customers based on their needs, and complete and useful financial information on OCC operations that fully supports financial and performance reporting.

During 2001 Financial Management accomplished the following:

- Implemented on October 1, 2001 a new joint financial management improvement program (JFMIP) compliant financial and acquisitions management information system called "\$SMART" for "management accountability reporting tools." \$SMART meets federal financial management system requirements and applicable federal accounting and transaction standards and allows OCC to have accurate, timely, and reliable financial information for decision-making and performance-based budgeting.
- Successfully transitioned OCC resource management to the federal fiscal year reporting cycle on October 1, 2001, allowing OCC to be on the same reporting cycle as the Department of the Treasury.
- Achieved the Department of the Treasury's goal for a monthly 3-day close for financial reporting and statements.
- Completed and implemented OCC's policy on special and contingency reserves.
- Redesigned OCC's individually billed travel card program to ensure adequate internal controls for employee travel card usage.
- Continued the process of integrating OCC's planning, budgeting and evaluation to achieve a streamlined, clear and integrated annual OCC plan and budget.

## Management Services Department

As the principal component responsible for providing administrative services essential to the OCC operations, the Management Services department reorganized in 2001 to focus on essential services and increase the efficiency of its operations. This reorganization replaced the previous structure with integrated management teams providing leadership for a smaller, highly skilled workforce allowing Management Services to improve service, elimi-

nate non-compliance, and control costs. Management Services delivers services in acquisition management; real estate management (leasing design/construction, capital assets), facilities management and security; informational/library services and management systems; supply and warehousing; conference planning; mail and messenger services; and records and forms management.

In addition to the above services, Management Services coordinates the OCC's program of partnerships with high school academies of finance across the country and runs the headquarters school volunteer program.

During 2001, Management Services' significant undertakings and accomplishments include:

- Management Services supported the OCC's efforts to enhance efficiency and reduce overall general and administrative cost by conducting an independent review of Management Services' functions, including commercial activities. Results of this study provide Management Services with a comprehensive strategy to improve efficiency and services, and support management decision-making regarding OCC's obligations under the FAIR Act and OMB Circular A-76 initiatives.
- The new \$SMART financial and acquisition management system was brought on-line on October 1, 2001 and included the integration of acquisition and financial modules to create an electronic funds control/management process. The new acquisition management system will also allow the division to improve the efficiency of the OCC procurement process and take advantage of advances in on-line procurement.
- The Real Estate and Capital Assets division completed the "Long-Term Real Estate Strategy Project," started during 2000. The study pointed to several opportunities for increasing efficiency and reducing vacancies throughout the portfolio of office leases. It also laid the groundwork for reducing costs in two district office leasing efforts that were ongoing in 2001. The study also prompted the piloting of a new approach to space planning of space in Field Offices. Real Estate and Capital Assets began six pilot office projects to be completed in 2002. The aim of these efforts is to support increased need for high-speed connections for each employee while providing flexible spaces that support team efforts.
- The Real Estate and Capital Assets division completed the leasing, planing and design and construction for

new field office space in Omaha, NE, Jacksonville, FL, and provided renovation services to several field offices. Real Estate and Capital Assets was also involved in the reallocation of space within the headquarters building to better align operating units and increase utilization.

- In addition to overseeing the modernization and integration of OCC's internal management systems, the Informational Services and Management Systems (IS&MS) unit managed the continued participation in "HR Connect," a Treasury-wide human resources system that streamlines and reengineers human resource processes; and managed the successful design, development and implementation of \$MART, OCC's integrated management system.
- Informational Services and Management Systems' Library staff provided comprehensive library services to OCC employees. Library staff answered reference requests in less than 24 hours 97 percent of the time, thus saving agency staff valuable time in gaining needed research and information. Existing on-line news service was replaced with two real time news services, American Banker online and Dow Jones Interactive, both of which meet the OCC needs.
- Records Management staff provided leadership in the critical area of electronic records management. Records Management worked with a consultant to identify the agency's critical recordkeeping needs and initiated a program to enable OCC to transition smoothly to electronic recordkeeping. To continue to safeguard critical bank records, Records Management revised the "National Filing System Reference Guide" and distributed it to OCC staff nationwide.
- Management Services responded to the anthrax crisis by implementing procedures for opening and screening mail in headquarters before it is delivered to headquarters staff. This included having Mail Center employees wear protective masks, gloves, and cover garments when opening incoming mail and the use of other items to detect hazardous substances and protect employees.
- Management Services continued to coordinate the OCC's effort to promote financial literacy through its successful educational outreach programs. OCC partnered with over 30 National Academy Foundation (NAF) local high school academies of finance or city-wide finance academy advisory boards, providing work experience for high school interns and participating on business and community advisory boards. In addition, OCC experts revised major parts of the NAF curriculum on banking and credit, which is used to instruct thousands of youngsters nationwide. At headquarters, 80

volunteers, over 10 percent of the total staff, volunteer at a local District of Columbia elementary school.

- Management Services units continued to enhance customer service by meeting or exceeding 90 percent of its customer service standards, an 11 percent increase over 2000.

## Continuing Education Department

The Continuing Education department provides a variety of services to meet the training and development needs of OCC employees. These services include consultation and instructional design, identifying knowledge gaps, internal courses developed by subject matter experts, self-study courses, vendor-based courses conducted at OCC sites, and numerous external training options. Continuing Education is organized into two teams: Educational Program Development and Customer Service.

The Educational Program Development team is responsible for the development and maintenance of technical (examiner) and management courses. The team is comprised of technical, management, MIS designers; course administrators; and technology specialists. This group uses a variety of delivery methods, including computer-based training (CBT) on the intranet, interactive compact disks, and traditional classroom training. Team members work closely with other OCC departments to develop internal courses in response to identified training needs. When practical, they use off-the-shelf, vendor-based products to meet specific training needs. This team is also responsible for maintaining Continuing Education's intranet site, which includes the internal course request system, the external training program application, outside vendor information, training schedules, a resource library, and many pre-course materials.

The Customer Service team is responsible for identifying training courses and tools that meet employees' training needs. The team includes all district training officers and their staff, the Washington and Large Bank training officers, and a management analyst. The training officers serve as primary contact for their serviced employees. They provide advice and counsel on available training courses, both internal and external; manage the internal and external course registration process; and communicate training policies and procedures to their customers. The Customer Service team also manages the Career Development Initiative, a program that encourages support staff to pursue training, education, and developmental assignments that can help them advance in their careers.

Continuing Education also manages the Opportunities Board and the Banker Education Program. The Opportunities Board is an agency-wide bulletin board used to solicit nominations for special projects and rotational assignments. This forum is designed to promote awareness of and access to developmental opportunities for all OCC employees. The OCC delivers educational opportunities for the industry through various mediums, including

telephone seminars, workshops, and reference materials in electronic form.

Accomplishments for 2001 include increased use of technology in the delivery of training to OCC employees; expansion of the banker education program; and a pilot program that demonstrated the benefits of using paraprofessionals to support bank examination activities.

## ***Mid-Size/Community Bank Supervision Department***

The primary role of the Mid-Size/Community Bank Supervision department is direct supervision of mid-size and community national banks, credit card banks, federal branches and agencies, national trust companies, bank data processing servicers and bank data software vendors. During 2001 the OCC conducted 1,615 examinations focused on the overall safety and soundness of national banks, federal branches and agencies. The OCC also conducted 685 compliance examinations, 242 Community Reinvestment Act examinations, 247 asset management examinations and 844 examinations of bank data processing servicers, bank data software vendors and bank information systems operations. More detailed information regarding OCC's direct supervision and historical trends is available in various other sections of this publication.

### **Supervision Operations Department**

The primary role of the Supervision Operations department is to support other Mid-Size/Community Bank Supervision divisions, including field examiners. The Supervision Operations department includes three distinct divisions: Mid-Size/Community Bank Policy Coordination, Special Projects and Programs, and Supervisory Information.

#### **Mid-Size/Community Bank Policy Coordination Division**

The policy-making process is the main responsibility of this division, coordinating the involvement of examiners in the development of new supervisory policies and procedures. The director works on cross-functional teams with the Chief National Bank Examiner's office, Large Bank Supervision, and other OCC units. In addition, this division coordinates the annual quality assurance functions for community banks, federal branches and agencies, and technology service providers.

#### **Special Projects and Programs Division**

The Special Projects and Programs division (SPP) administers various programs that support bank supervision functions. These include the examiner specialized skills program (ESSP), the uniform commission examination (UCE) program, the bank examination services contract program, and the international examinations program. The

ESSP provides on-the-job training and monitors specialized skills activities in various specialty areas. Approximately 120 examiners participated in 514 specialized examination assignments during fiscal year 2001. The UCE program administers the testing process that determines the readiness of an examiner to be certified as a "commissioned" national bank examiner. Approximately 60 examiners were tested in 2001. The bank examination services contract program provides external experts to perform bank examination-related tasks on a contractual basis. Contractors were assigned to 193 tasks during calendar year 2001. The international examinations program is an administrative process that provides support to examiners performing overseas examinations. During 2001, the program provided support to approximately 67 examiners participating in 38 overseas examinations in eight countries.

In addition to the programs mentioned above, the SPP division coordinates various projects for the senior deputy comptroller for Mid-Size/Community Bank Supervision. During 2001, the division coordinated the review of various policies and procedures and provided support to the development of a new supervisory information system, a new reporting and tracking system to improve mid-size/community bank supervision's budget monitoring process, and several initiatives to improve OCC outreach efforts to community bankers.

#### **Supervisory Information Division**

The Supervisory Information division supports OCC management and staff decision-making by analyzing and developing management information reports on bank supervision-related matters. The division accomplishes this by producing and distributing various analysis, reports, and applications covering examination and supervision tracking, early warning screens and ranking reports, bank financial filters and risk assessment reports, as well as responding to various ad-hoc information requests. In addition, the division has financial analysts located in each of OCC's six district offices, who provide supervision and operational information for the district-supervised banks on a regular basis.

Supervisory Information continues to play a major role in advancing the agency's Web-based products and capabilities. The division maintains several Web-based reporting systems, including "Fast Data," "Flash Earnings," "National Bank Rank Ordering Report," and the "Internet Banking Questionnaire." All of these systems are critical to the supervisory process, and allow the agency to gather timely risk-related banking measures used for in-depth bank financial and supervisory analysis. The division continues to develop new Web-based systems, including a new system to collect detailed credit card bank risk measures. The "National MIS" (management information sys-

tem) application is also delivered via a Web-based format on a quarterly basis to the agency's senior management.

During 2001, the division became the system administrator for the "Examiner View" (EV) software application. This system assists bank examiners in preparing for and conducting examinations of financial institutions and electronically stores examination reports, working papers, and financial and supervisory information. "EV Reports," the reporting component of the system, allows for quick customized reporting of statistical information. The division also supports other major supervisory systems and many automated tools and models used by examiners in their daily examination processes.

## **Special Supervision/Fraud Department**

The Special Supervision/Fraud division consists of problem bank and fraud specialists. The division, which was part of Supervision Support, was re-established as a separate unit this year in order to better coordinate and guide the OCC's overall supervision of problem banks. The problem bank specialists supervise those national banks in critical condition, monitor failing banks, coordinate bank closings, and help determine OCC policy for the examination and enforcement of problem banks. Fraud specialists are located in each district. Two fraud specialists are also assigned to Large Banks, and an external fraud specialist is assigned to headquarters. They provide support and expertise on a wide variety of fraud-related issues.

The division's problem bank specialists are the focal point for managing the most critical bank situations in which potential for failure is high. An anticipatory approach is used in resolving these critical bank situations. The division deals with each bank individually, employing enforcement and administrative tools best suited to that bank's problems. The problem bank specialists approve the scope of examination activities, hold meetings with management and boards of directors, review corporate-related applications, and process reports of examination and correspondence for these banks.

The problem bank specialists also provide general advice and guidance on problem bank issues to district offices and other OCC units, and develop examination strategies to enhance OCC's relationship with problem banks. The division tracks district trends in problem banks and monitors for consistency of treatment. The problem bank specialists helped develop and teach the problem bank and failure management courses. The problem bank specialists frequently represent the OCC at meetings with foreign regulators who seek out specialized problem bank knowledge.

The division's fraud specialists serve as liaisons for field staff and management on fraud-related issues, and participate on examinations to provide expertise in complex investigations. They testify in court on examination and fraud findings or as expert witnesses. They advise district and large bank staff and conduct outreach meetings on various fraud topics. The fraud specialists also develop and maintain contacts with law enforcement organizations and other agencies.

# ***Committee on Bank Supervision***

The Committee on Bank Supervision comprises the chief national bank examiner and the senior deputy comptrollers for Large Bank Supervision and Mid-Size/Community Bank Supervision. The committee was established to oversee the development and implementation of OCC's bank supervision policies and supervision-related training programs. The Compliance and the Technology departments report directly to the committee.

## **Compliance Department**

The OCC's Compliance department was formed on October 1, 2001 by the merger of Compliance Operations and Community and Consumer Policy departments.

The Compliance department is responsible for maintaining an effective compliance supervision program. The department establishes, maintains and implements supervision and examination policies and procedures governing community reinvestment, fair lending, anti-money laundering, Bank Secrecy Act reporting and record keeping and consumer protection. A deputy comptroller heads the department and all compliance specialists in the districts and in large banks report directly to the department. Front-line managers consist of one director, six district assistant deputy comptrollers and four large bank assistant deputy comptrollers.

Several important initiatives were completed during 2001. Compliance continued its efforts to fully integrate compliance risk supervision into the OCC's ongoing supervision activities at national banks. As part of this integration, risk-based supervision training was a main focal point of the 2001 Compliance Conference for OCC examiners. In addition, risk-based compliance initiatives were implemented across the national bank population. Also during 2001, the OCC, along with the other federal financial institution regulators approved uniform examination procedures to verify compliance with consumer privacy regulations as well as guidance to assist financial institutions in complying with the privacy requirements. Examiners contacted institutions to discuss their progress in achieving full compliance with the privacy provisions. In addition, compliance continued to emphasize BSA/anti-money-laundering risks, so that national banks and federal branches are appropriately focused on risk identification and controls in these areas. The signing of the USA Patriot Act into law gives the OCC, and other departments and federal agencies, enhanced authority to identify and deter international money laundering. En-

hancements to the CRA were also implemented. Lastly, Compliance began work on a process to better utilize consumer complaint data compiled by the OCC's Customer Assistance Group.

## **Technology Department**

The mission of the Technology department is to support the OCC's strategic objectives by assessing information technology-related risks to the national banking system, developing and issuing supervision policy guidance on information technology-related risks, facilitating efforts to integrate information technology-related risks in OCC supervision, ensuring accurate and consistent implementation of policies and procedures by field examiners, participating in the development of specialty-related training courses, and supervising the interagency Multi-District Data Processing Services (MDPS) and Shared Applications Review programs. The department does this through the Bank Technology and Bank Information Technology Operations divisions.

As part of efforts to assess information technology-related risks to the national banking system, the Bank Technology division advises senior OCC management and field examiners on information technology-related risks by compiling and analyzing information and data on technology-related activities. In addition, the Bank Technology division monitors industry developments by participating in industry-sponsored events. The division also manages the e-banking portion of the OCC's Web site.

Bank Technology develops supervision policy guidance on information technology-related risks. As part of this effort, the Bank Technology division focuses on bank technology risks, including business continuity planning, electronic banking, technology outsourcing, information security, privacy, authentication, aggregation, Web-linking, and wireless access devices. The department also represents the OCC on the FFIEC's information Technology Subcommittee and works closely with other federal banking agencies to develop industry guidance and examination procedures.

Bank Technology facilitates efforts to integrate technology-related risk evaluation in OCC supervision and ensure the consistent implementation of policies and guidance by working with the districts' lead information technology experts and the large banks' bank information technology specialists. In addition, Bank Technology develops training programs on Internet banking and information technology-related risks, and supervision of technology service providers for managers and field examiners. This

includes in-depth training on specific technologies and risk management practices used by banks and technology service providers.

Bank Technology chairs the Electronic Banking Working Group, an inter-departmental group responsible for providing guidance to the industry and examiners; monitoring and analyzing risks in e-banking activities; ensuring OCC examiners have the right tools and training; supporting the OCC's leadership role in industry, interagency, and international efforts; and planning and prioritizing projects that involve significant inter-unit work. In addition, BT actively participates in the OCC's national risk committee (NRC), prepares quarterly updates analyzing technology-related risks facing the industry, recommends changes to the NRC "radar screen", and maintains an action plan to deal with identified risks. Bank Technology also participates in other committees such as the OCC's supervision policy committee and also reviews technology-related risks associated with corporate applications from national banks or organizers seeking a national bank charter.

Members of the Bank Technology division also participate in field examinations of banks and service providers that have information technology-intensive operations. Further, Bank Technology works with other units to respond to inquiries from Congress, General Accounting Office, Treasury Department, White House, and other executive agency offices. Bank Technology supports the Comptroller as chairman of the Basel Electronic Banking Group (EBG).

The Bank Technology division also represents the OCC on Treasury's Federal Banking Information Infrastructure Committee (FBIIC) by working closely with other financial regulators, Treasury, and the Office of Homeland Security to establish secure communication facilities for FBIIC agencies; review continuity of operations plans of regulatory agencies; evaluate financial sector vulnerabilities; and coordinate communications with the Office of Homeland Security, private sector, international counterparts, and other critical sectors.

# ***Information Technology Services Department***

In 2001, Information Technology Services (ITS) continued to partner with the OCC's other business units to offer new technology alternatives and strategic activities to improve and integrate internal processes in support of the agency's mission.

The chief information officer (CIO) is a member of the executive committee and leads ITS. As the senior information technology (IT) official, the CIO is the advisor to OCC executive staff regarding IT investments and solutions and their impact on business programs and goals. The CIO represents OCC at the Department of the Treasury on all IT issues. ITS worked with other Treasury bureaus to provide technological and financial advantages on technology procurements for OCC. The CIO has also maintained partnerships with other federal financial regulators to ensure OCC's technology architecture continued to support consistency and best practices in infrastructure, customer services, and systems development.

The CIO has an administrative staff and three divisions (Customer Services, Information Services, and Network Services) under his supervision. The key responsibility of these units is to ensure reliable, timely access to information using the best practices of government and private industry.

## **Chief Information Officer**

The CIO staff provides administrative support to the CIO and ITS divisions. A special projects manager and an executive assistant report directly to the CIO.

The executive assistant has primary coordination responsibility for the day-to-day operations of the department, and has direct reports including the special projects manager and team lead for the Policy, Planning and Quality Assurance team, an IT human resources liaison, and budget personnel.

The Policy, Planning and Quality Assurance (PPQA) team mission is to oversee the OCC IT capital planning program, and to provide strategic and operational support to ITS management and staff. They act as an interface with Treasury as the OCC's IT liaison and with the business units on programs that support their technology investments. The team leads the development of policy, standards, and procedures to ensure appropriate management controls are in place and that quality systems and customer-oriented technology services are provided.

The special projects manager reports directly to the CIO and has responsibility for information security and OCC business unit IT liaisons. The OCC computer incident response capability (CIRC) was formed according to the OMB A-130's dictate that each federal agency respond to security incidents in its immediate environment, and share information with other agencies regarding common vulnerabilities. The OCC CIRC also provides intrusion detection and virus protection. In 2001, an online security awareness and training module was developed as mandated by OMB A-130.

## **Customer Services Division**

The Customer Services division is the primary technology support unit for the Washington office and district IT services. The structure of the division includes a special projects manager, six district teams, a headquarters and data center team. At the data center are the national help desk and the depot maintenance program. The six district and headquarters teams coordinate all ITS activities and provide the first line of customer support.

The division's mission statement is to promote and support OCC-wide desktop services in a customer sensitive, cost effective, and timely manner. Efforts are focused on five critical areas of responsibility: customer outreach, technical support, implementation activities and PC hardware and software upgrades/replacements, office automation budget execution, and depot maintenance.

2001 accomplishments include:

- Led the development and implementation of four beta versions of the Windows 2000 desktop operating system, including an upgrade to Office 2000
- Implemented an application test lab for the Windows 2000 operating system upgrade
- Implemented Windows 2000 feedback forms and repository databases to document customer feedback
- Implemented a change control procedure for Windows 2000 beta testing
- Developed Windows 2000 customer training materials
- Developed automated presentations for the various cultural/historical observances
- Developed automated, annual, all-employee security awareness and ethics training
- Implemented the OCC's conversion from McAfee to Norton Anti-Virus software
- Implemented and installed fax server services within each district office



- Supported the transition of the community bank program (CBP) to the nationally supported national credit tool (NCT)
- Promoted and expanded the "Exam On-Site Hardware Support" program
- Supported the implementation of "Examiner View" (EV2001), "EV Reports," "HQEV," and "Office View"
- Resolved over 42,000 IT issues for OCC staff
- Repaired or replaced over 2,700 pieces of IT equipment

## Information Services Division

The Information Services division is responsible for the development and maintenance of application systems used to support OCC business objectives. It also creates and maintains corporate data repositories and the standard OCC desktop configuration. Major responsibilities include introducing new technologies, maintaining existing applications, developing new applications, researching and customizing software, and providing cost-effective and efficient ways to meet customer technology needs.

The technical achievements of the IS division are a broad-based collection of systems, spanning multiple platforms and utilizing numerous technologies. Listed below are just a few of the division's 2001 technical accomplishments:

- *\$MART*. \$MART, the OCC's integrated financial and acquisition management system, was implemented. This system will allow OCC to meet all federal accounting and acquisitions standards. For the first time, OCC has formal funds management and budget controls.
- *Data advisory board and data working group*. During this period, the data warehouse team worked with the data advisory board (DAB), the data working group and bank supervisory and Office of Management customers, to improve the data warehouse environment by adding and creating refresh processes for new administrative and bank supervision data. They also developed new data integration capabilities, produced new and enhanced front-ends for business users, and widened the audience and capabilities of users.
- *"Examiner View."* The project team released the 2001 suite of "Examiner View" applications, including "Examiner View," "Office View," and "EV Reports." In March, the project team released "HQEV," a read-only version of the application that permitted wide access to EV data through an EV like interface, but without replication. By the end of the year, the team was ready to release the next version of the suite of EV applications.
- *Section 508 of the Rehabilitation Act*. To ensure that the information and features of OCC's Web sites are

accessible to all site visitors, Net Development completed the renovation of all HTML-based pages and content for compliance with Section 508 of the Rehabilitation Act.

- *National BankNet Expansion*. Important security infrastructure upgrades were completed to enhance intrusion protection and isolation of critical components. BankNet subscriptions continue to rise with registration extended to over 4,000 bankers representing 1,400 institutions. In 2001, two additional components were added to BankNet's features list, including "Canary", OCC's early warning tool designed to support the identification of emerging risks and "Supervision-In-The-Future (SITF)", which provides the capability for banks to upload pre-examination documents for OCC internal use. In addition to Canary and SITF, Net Development prototyped an enhanced version of e-Corp using digital certificates to provide an electronic signature function.

In addition to the tremendous volume of technical achievements, IS has also integrated new methodologies to improve the overall systems development process. Tools and controls were implemented to facilitate the adoption of new technologies, manage the development of both large and small, diverse software application systems and better utilize common modules, objects and processes. Several initiatives were begun, piloted, enhanced and/or implemented to improve Information Services' ability to adapt to the rapidly changing demands on its services.

## Network Services Division

The Network Services division is responsible for maintaining reliable access to the agency's technology infrastructure. This infrastructure covers several components of OCC's technology architecture including database operations, local area networks, server and mainframe operations, and voice and data telecommunications services. The division is based at the data center facility in Landover, Maryland.

2001 accomplishments include:

- *Windows 2000*. Converted all file and print servers and one third of the production application servers to Windows 2000 and successfully created the new domain within Microsoft's Active Directory. We have also created a SQL server 2000 environment and are working with Information Systems to convert all OCC database applications to use the new facilities. All this will position us to implement Microsoft's Active Directory once the user's desktop is converted. The remaining production application servers are scheduled for conversion in the first half of 2002.

- *Data center electrical upgrade.* The upgrade involved installation of a new uninterruptible power supply (UPS), replacement of 186 batteries, and installation of a fourth power distribution unit (PDU) in the computer room. Over the past several years, the OCC data center has experienced rapid growth in the amount of computer hardware that has been added to the computer room. In addition, the old UPS and batteries were 15 years old and had exceeded their recommended operational life. The new equipment improves power reliability and provides additional electrical capacity for future growth.
- *Anti-virus software.* All Network Services controlled servers were converted to the corporate version of Norton Anti-Virus software. This gives the OCC centralized control over updates and version upgrades.
- *Telecommunications.* In response to poor performance by Sprint, Network Services made the decision to discontinue use of the FTS 2001 contract for data circuits and 1-800 services. The new contract arrangements are more cost-effective than the FTS 2001 contract and will result in better service delivery.
- *Virtual private networking.* We have successfully piloted and installed virtual private network technology on the OCC's network, using both DSL and cable modems. Several small bank locations and work-at-home users have been converted saving the agency thousands of dollars in monthly access fees.
- *Headquarters cabling.* The network cabling in the headquarters building was converted from something close to CAT-3 to the latest CAT-6 standard. This not only cut cable related problems by over 90 percent, but positions the OCC to provide greater bandwidth to the desktop in the future.

During 2001, Network Services continued work on preparing new workstation images (OCC release candidate 1) of Windows 2000 for the 10 different models of OCC PC platforms. The division is upgrading data circuits for 21 field office and Large Bank locations. Network Services is also exploring alternate dial-in solutions to lower costs and to facilitate and complement implementation of Windows 2000. The upgrade of OCC's electronic mail system from Exchange 5.5 to Exchange2000 to improve performance, reliability and take advantage of new capabilities is also in process.

## ***Ombudsman***

In 2001, the ombudsman was responsible for overseeing the national bank appeals process and the Customer Assistance Group (CAG). The CAG reviews and processes complaints received from customers of national banks. The ombudsman functions independently, outside of bank supervision, and reports directly to the Comptroller.

The primary ongoing activities of the national bank appeals process included resolution of individual appeals from national banks, administration of the examination questionnaire process, and outreach activities. With the consent of the Comptroller, the ombudsman has the discretion to supersede any agency decision or action during the resolution of an appealable matter. The ombudsman often acted as a catalyst to spawn reviews of agency policies, processes, and procedures as a result of

issues identified through his activities. The ombudsman also acted as liaison between the OCC and anyone with unresolved problems in dealing with the OCC regarding its regulatory activities.

The ombudsman also oversees the CAG. This group reviews and processes complaints received from customers of national banks. The office oversees a call center with trained compliance professionals and an advanced platform of equipment to enhance the group's ability to deliver responsive customer service. The CAG has adopted the philosophy of resolving as many cases as possible at the point of first contact. 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 group's constituents not only include customers of national banks, but also the national banks and OCC's bank supervision divisions.