



Comptroller of the Currency
Administrator of National Banks

Annual Report

Fiscal Year 2003

*The Value of the
National Bank Charter*



OCC VISION

The Office of the Comptroller of the Currency (OCC) seeks to assure a banking system in which national banks soundly manage their risks, comply with applicable laws, compete effectively with other providers of financial services, offer products and services that meet the needs of customers, and provide fair access to financial services and fair treatment of their customers.

MISSION

The Office of the Comptroller of the Currency was created by Congress to charter national banks, to oversee a nationwide system of banking institutions, and to assure that national banks are safe and sound, competitive and profitable, and capable of serving in the best possible manner the banking needs of their customers.



ANNUAL REPORT

FISCAL YEAR 2003



OFFICE OF THE COMPTROLLER OF THE CURRENCY

John D. Hawke, Jr.

Comptroller of the Currency

The Administrator of National Banks

November 2003

Table of Contents

140 Years of Excellence	1
Comptroller’s Viewpoint	4
OCC At-a-Glance	6
Agency Overview	6
Agency Profile	6
Agency Structure	7
OCC Organization Chart and Office Locations	7
Strategic Goals	8
Performance Measures	8
Program Results	8
Financial Management Results	10
Operations and Accomplishments	11
Supervise Program	11
Charter Program	21
Regulate Program	27
Analyze Risk Program	31
Partnership and Outreach	32
OCC’s Next Steps	36
Management	37
Initiatives	38
Program Evaluations	43
Management Challenges and High-Risk Areas	44
Letter from the Chief Financial Officer	45
Financial Management Discussion	47
Systems, Controls, and Legal Compliance	56

Independent Auditors' Report	63
Financial Statements and Notes	74
Balance Sheets	74
Statements of Net Cost	75
Statements of Changes in Net Position	76
Statements of Budgetary Resources	77
Statements of Financing	78
Notes to the Financial Statements	79
Appendices	88
A—Comptrollers of the Currency, 1863 to present	88
B—Senior Deputy and Deputy Comptrollers of the Currency, 1863 to present	89
C—Glossary of Acronyms	94
D—FY 2003 Performance Measures and Results	96
Index	99



140 Years of Excellence

A Brief History of the Office of the Comptroller of the Currency

Created as a bureau of the Treasury Department by the National Currency Act of February 25, 1863, the Office of the Comptroller of the Currency (OCC) was charged with the responsibility of organizing and administering a system of nationally chartered banks and a uniform national currency. In June 1864, the legislation underwent substantial amendment and became known as the National Bank Act. It remains the basic statute governing the national banking system today.

The national banking system was created in response to short- and long-term needs. When the Civil War began, less than \$2 million was on hand in the Treasury, and new sources of cash were urgently required. The new law required that bank organizers purchase U.S. governmental bonds in order to obtain a national bank charter, which ultimately generated nearly \$130 million for the cash-strapped federal government.

But the founders of the national banking system, including President Lincoln and Secretary of the Treasury Salmon P. Chase, had a longer, more peaceful and more prosperous future in mind. The absence both of a uniform national currency and a safe and sound banking system had been a serious impediment to economic growth before the Civil War. With the National Bank Act, the country obtained both.

The first Comptroller, Hugh McCulloch of Indiana, was among the most distinguished bankers of his day. He had come to Washington as a lobbyist on behalf of state-chartered banks to oppose the National Currency Act. But further study convinced McCulloch that the legislation would be a great benefit to the country, and he accepted Chase's offer to head the new bureau.

Congress built various safeguards into the law to ensure public confidence in the national banking system, and McCulloch developed the policies and procedures to maintain high standards of safety and soundness among national banks. Bank organizers were expected to be people of character and experience; their business plans received careful scrutiny; their activities were strictly circumscribed; and, once under way, their operations were subjected to regular oversight by OCC examiners, who often brought many years of professional experience to their duties.

The essential mission of the OCC has not changed greatly since 1863. National banks continue to underpin the U.S. economy, and the responsibility for their safety and soundness still rests significantly on the supervisory expertise of the OCC. Twenty-seven Comptrollers of the Currency since Hugh McCulloch have presided over a national banking system that has grown dramatically in size and sophistication.



Key Dates in OCC History

1863

President Abraham Lincoln signs the Currency Act of 1863, establishing the Office of the Comptroller of the Currency. The act sets chartering standards for national banks and permits these banks to issue currency.

1872

John Jay Knox is appointed Comptroller by President Ulysses S. Grant. He served until 1884—the second longest term in the history of the Office of the Comptroller. A low failure rate of 73 banks in 12 years testifies to the effectiveness of the Office.



1908

Lawrence O. Murray is named Comptroller. He places new emphasis on stricter bank chartering standards and insists on onsite bank supervision.

1913

Federal Reserve System is established.

1933

J.F.T. O'Connor becomes Comptroller and restores stability to the national bank system during the Great Depression.

President Franklin D. Roosevelt declares a four-day bank holiday on March 6.

Federal Deposit Insurance Corporation (FDIC) is established.

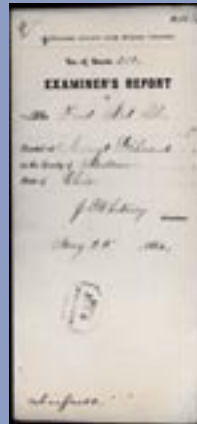


Hugh McCulloch is appointed the first Comptroller of the Currency. He later becomes Secretary of the Treasury.

The first national bank charter is issued to the First National Bank of Philadelphia.

The first national bank examination is completed.

The first national bank note is issued.



1865

Congress attempts to drive state banks out of existence by levying a 10 percent tax on state bank notes.

The first national bank failure (First National Bank of Attica, New York) occurs on April 14, the same day that President Lincoln is shot.



1935

Banking Act of 1935 retires national bank currency in favor of Federal Reserve notes.

1938

OCC, Federal Reserve Board, and FDIC agree to share responsibility for bank examinations.



1956

Bank Holding Company Act of 1956 places restrictions on interstate bank holding companies.

1961

James J. Saxon is appointed Comptroller. He accelerates the granting of national bank charters, expands national bank powers, and liberates national banks from regulations deemed unnecessarily burdensome.

1974-75

Study by accounting firm of Haskins and Sells recommends that OCC focus its supervision on troubled banks, rather than on all banks equally.

1978

Federal Financial Institutions Examination Council (FFIEC) is established to provide uniform bank supervision.

1989

In response to the 1980s banking crisis, Congress passes the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). This act replaces the Federal Home Loan Bank Board with the Office of Thrift Supervision and provides pay parity among federal financial regulatory agencies.

1991

The FDIC Improvement Act (FDICIA) imposes new regulatory requirements on banks and enhances regulatory safeguards.

1998

John D. Hawke, Jr., is named Comptroller. He supports modernization and competitiveness of the national bank charter, works to end disparities in funding of state and national bank supervision, and tightens OCC budget controls.

