Comptroller of the Currency
Administrator of National Banks

US Department of the Treasury

Office *of the* Comptroller *of the* Currency

Annual Report | Fiscal Year 2010

THE OFFICE *of the*
COMPTROLLER
of the **CURRENCY**

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.

Office *of the* Comptroller *of the* Currency

Annual Report | Fiscal Year 2010

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OCC Office Locations

National Banking System at-a-Glance	
U.S. commercial banks	6,673
National banks	1,487
Large banks	45
Midsize banks	52
Community banks	1,390
National banks, share of all U.S. commercial banks	22 percent
U.S. commercial banking assets	$11.9 trillion
National bank assets	$8.5 trillion
National banks, share of all U.S. commercial banking assets	71 percent

Source: OCC data.

The OCC at-a-Glance	
Employees (full-time equivalents)	3,101
Office locations*	66
Budget authority	$791.7 million
Revenue derived from assessments	97 percent
Consumer complaints opened	80,336
Consumer complaints closed	79,660

*The OCC maintains multiple locations in some large cities. In addition, the OCC has a continuous on-site presence at large banks under its supervision.

Comptroller's Viewpoint

If the past two years have been defined by the financial crisis, then the next two—and perhaps many more after that—will be defined by the Dodd–Frank Wall Street Reform and Consumer Protection Act, which was signed into law on July 21, 2010. This watershed legislation touches virtually every aspect of the financial services industry. It sets up a new structure for identifying and addressing risk across the financial system, creates a new agency to oversee consumer protection for financial services, and establishes a new mechanism for resolving large, systemically important financial institutions—even those that are not banks. The new law sets guidelines for securitizations, derivatives, and large bank capital, among other provisions, and it abolishes the Office of Thrift Supervision (OTS) and transfers many of its functions to the Office of the Comptroller of the Currency (OCC).

I have the honor of serving as acting Comptroller of the Currency as Dodd–Frank implementation begins, following the departure of Comptroller John C. Dugan, who finished his term of office in August. While we are very much engaged in the task of supervising a banking industry that is still recovering from both the financial crisis and the recession, much of my time—and that of the OCC, as well as the other banking financial industry regulators—is now being devoted to implementation of Dodd–Frank.

A major task for the OCC is integrating most of the responsibilities and staff from the OTS into our agency. Institutions to finance housing were among the first building blocks of the U.S. financial system, and we at the OCC are proud that Congress has assigned us the responsibility to supervise this important industry as it moves into its third century.

While the thrift mission is new to the OCC, we have substantial expertise in mortgage lending, the traditional mission of thrifts in America, and in the supervision of special purpose institutions, such as credit card and trust banks. In addition, more than 90 percent of the banks we supervise are community institutions that have much in common with thrifts, and that is where the bulk of our supervision staff and resources is deployed. We look forward to welcoming new colleagues from OTS who will work with us on this mission, and we are on track to complete the transition by July 21, 2011, the date prescribed by the Dodd–Frank Act.

However, as important as the OTS transfer is to the OCC, it is only one of the many projects we are working on as a result of the new law, and only one of the many significant changes it will bring to the financial services industry.

Dodd–Frank provides important tools for regulators that will lead to greater long-term financial stability. In particular, the Financial Stability Oversight Council (FSOC) will ensure more comprehensive risk management across the system. In the years leading up to the financial crisis, no regulatory agency had responsibility for supervising the entire financial system. By bringing together all of the major financial regulators, including the OCC, the FSOC can help close that gap.

The legislation also provides a mechanism for winding down large, systemically important bank holding companies and nonbank institutions. This is extraordinarily important authority. The prospect of another Lehman-style failure, with all of the havoc that resulted in the financial markets, is clearly unacceptable. So it is essential that the federal banking agencies have adequate authority to wind down a systemically important financial institution. At the same time, the legislation places restrictions on the use of some financial tools that were used to powerful and positive effect in the broad systemic crisis we have just experienced. As it pursues its systemic risk mandate, the FSOC must ensure that the tools available are adequate to the challenges ahead.

Another important element of the legislation is the creation of the Bureau of Consumer Financial Protection. This new agency will have responsibility for writing rules for all financial service providers and for ensuring compliance at institutions with more than $10 billion in assets, so a portion of the OCC's consumer compliance jurisdiction will migrate to the new bureau. For the first time, nonbank lenders, including mortgage companies and finance companies, will be subject to the same kind of strict regulatory requirements that have always applied to banks. As a result, the new bureau has the opportunity to close a major gap in financial regulation, and that will help to increase stability in the system as well as provide for broader consumer protection.

In our banks, we face a challenge in ensuring that the new alignment of regulators strikes an appropriate balance between consumer protection and safety and soundness. The bureau has ultimate authority over consumer protection matters, but this is not an all-or-nothing proposition in which either consumer protection or safety and soundness wins. There will be occasions when consumer rulemaking will have important implications for safety and soundness. The OCC has always viewed the two issues as inseparable parts of its overall supervisory mission. It is simply not possible for a financial institution to remain healthy if it mismanages customer relationships or engages in abusive practices. We will now be working with the new consumer bureau to make sure those dual objectives of safety and soundness and protection of bank customers are met, and we will work hard to ensure we strike that balance.

All these changes contribute to a challenging environment for banks: The Dodd–Frank requirements coincide with Basel III increases in capital requirements, new laws and regulations affecting credit cards and interchange fees, and weak loan demand in a recovering economy. This leads to fundamental questions about the future of the industry: How will banks and thrifts fund themselves in the years ahead, what kinds of products will they offer, and, ultimately, how will they earn money? The answers to these questions will have a profound effect on the direction of the U.S. economy.

As supervisors, we at the OCC have always believed that only if we maintain the industry's safety and soundness will banks be in a position to meet the needs of America's consumers and businesses. Dodd–Frank also mandates very specific approaches to safety and soundness, from banning the use of credit ratings to setting risk retention requirements for securitizations. These requirements, too, will significantly affect how banks operate and how much credit they make available.

So, it is important in the first instance that the nation's financial regulators get it right as we implement these new requirements—that we craft rules that will effectively limit risk in the system without unduly restraining credit. However, it is also important that financial institutions get it right as they adjust to the new regulatory and economic environment. As we interact with national banks, we are challenging boards and management to do just that.

The first challenge involves the question of strategic direction. How will regulatory change and uncertainty, such as new capital requirements, the Volcker rule, and concentration limits, affect a bank's risk appetite and ultimately its earnings capacity? Basel III mandates higher capital levels and, more significantly, higher quality capital, phased in over time. We aren't just raising the Tier 1 capital standard; we are also setting specific requirements for common equity. And despite the good work that so many banks have done to raise capital by issuing new shares, some will have to raise still more, and that means tough choices with important implications for the economy. If the bank isn't going to dilute shareholders further by raising equity in the market, will it retain more earnings by not raising dividends? Or will it grow more slowly or even shrink its balance sheet?

The second challenge involves earnings capacity in a changing environment. Banks have made significant strides since the depths of the crisis: Capital has been restored, reserves bulked up, and liquidity greatly improved. The question banks must address now is how to maintain that progress, particularly in the face of a sluggish economy in which loan demand is depressed and problem credits are elevated. Given the ongoing problems many borrowers are facing, we believe bank management should be cautious about decreasing reserves at this point in the cycle. Reserves were too low coming into the crisis, and we had to build them aggressively at a time of market disruptions and economic distress. That was a painful lesson, and it produced a decidedly procyclical result.

In addition, banks cannot assume that earnings will rebound to prior levels, given new activity restrictions, limitations on fees, and higher capital requirements. There will be more demands and greater expectations from regulators, shareholders, and the public for increased investment in management information systems, risk management, and internal audit functions.

A third question has to do with an institution's risk appetite. We want the banks we supervise to review their risk profile, making sure they have a complete picture of the range of risks they are assuming and that they are comfortable with it. In doing so, they should review compensation policies to ensure they are striking the right balance between generating growth and managing risk, and they should take steps to ensure they have the people and the technology necessary to provide strong risk management and audit coverage.

A fourth challenge is the increased importance of compliance and operational concerns—challenges that pose the greatest risk to a bank's reputation. Whether it is dealing with the anti-money laundering controls, credit card rules, fair lending, or the foreclosure process, compliance lapses can affect an institution's reputation in significant ways. And damage to a bank's name can be very hard to repair.

Clearly there is much work ahead to return the banking system and the economy to normal operation. The financial crisis exacted a toll that was felt by virtually every American, and the job of the OCC and the other financial regulators is to do everything in our power to guide the system back to health, while creating the mechanisms to prevent a similar event in the future. I cannot say at this writing how long my term as acting Comptroller will last, but I can pledge to use every day of it to move the national banking system closer to those goals.

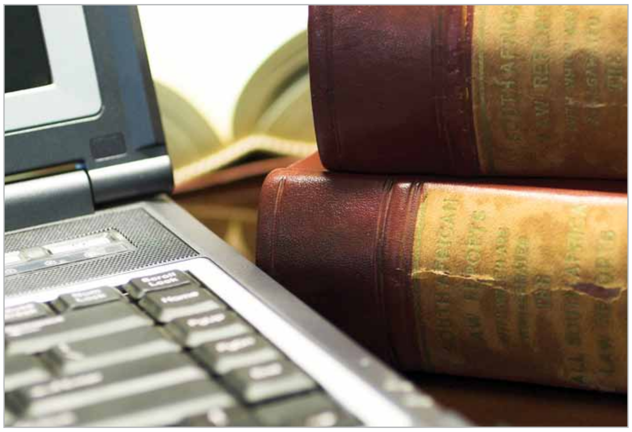
John Walsh
Acting Comptroller
of the Currency

THE OFFICE *of the* COMPTROLLER *of the* CURRENCY

was created on February 25, 1863, when President Abraham Lincoln signed the National Currency Act into law. The Act charged the OCC with regulating and supervising the new national banking system. The OCC still performs those functions today. Under the Dodd–Frank Wall Street Reform and Consumer Protection Act of July 2010, the OCC will assume the additional responsibility of supervising federally chartered thrift institutions.

Section One

Year in Review



During fiscal year 2010,[1] the OCC continued to promote the recovery of the national banking system from the worst financial crisis since the Great Depression. In the course of its supervisory activities, it encouraged national banks to address problem assets, strengthen capital and liquidity, make loans to creditworthy borrowers, and work constructively with borrowers facing financial difficulties.

The OCC also played a key role in efforts to improve global and domestic bank supervision and enhance financial stability. To these ends, the OCC worked with Congress to help craft the Dodd–Frank Wall Street Reform and Consumer Protection Act of July 2010,[2] and it participated in the deliberations of supervisory organizations in the United States and abroad, including the Joint Forum, the Group of Twenty's Financial Stability Forum (FSF) and its successor, the Financial Stability Board (FSB), the Senior Supervisors Group (SSG) of the FSB, and the Basel Committee on Banking Supervision.

The OCC's approach to supervision emphasizes the importance of adhering to sound banking principles, including

- strong corporate governance,
- prudent loan underwriting standards,
- prompt recognition of problem assets,
- sound incentive compensation structures,
- effective internal controls and risk management, and
- compliance with applicable laws and regulations.

To achieve its supervisory objectives, the OCC develops and implements policy guidance and regulations and conducts on-site examinations and off-site monitoring of banks to assess compliance with regulatory standards and identify emerging risks or trends. When deficiencies are observed in bank policies and operations, the OCC uses formal and informal enforcement tools to achieve corrective action.

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[1] Unless otherwise noted, all references to 2010 refer to the fiscal year covered by this Annual Report, beginning October 1, 2009, and ending September 30, 2010.

[2] Hereafter in this Annual Report, we refer to this as "Dodd–Frank."

Supervisory Initiatives

In 2010, the OCC issued guidance to strengthen national banks in four key areas.

Incentive Compensation

The OCC worked with other supervisors across the globe to establish and implement more robust principles for sound compensation practices within the financial industry. The OCC worked with the FSF to develop "Principles for Sound Compensation Practices," which are intended to apply to "significant" financial institutions across jurisdictions.[3] The FSF guidance establishes nine principles designed to promote effective governance of compensation, proper alignment of compensation with prudent risk taking, and supervisory oversight and engagement by stakeholders.

The OCC worked with other U.S. federal banking agencies to issue guidance designed to ensure that future incentive compensation arrangements are compatible with effective controls and risk management, appropriately tie rewards to longer-term performance, and avoid creating undue risks. In conjunction with this guidance, the OCC and the Federal Reserve Board are conducting a coordinated examination of compensation practices at multiple financial firms—a so-called horizontal review—to assess compliance with the guidance.

The OCC's supervisory approach recognizes that large banks and smaller institutions have different supervisory needs. The guidance on incentive compensation requires large banks to develop systematic and formalized policies to ensure that risks and rewards are properly balanced, and it recognizes that smaller banks, which rely on less complex compensation systems, may not require such detailed procedures.[4]

Interest Rate Risk

The Federal Reserve Board's transition toward a more accommodating monetary policy helped stimulate economic activity and brought substantial benefits for borrowers and lenders. For banks, the low-cost funding environment also introduced risks, including the possible loss of core deposits, increased future funding costs, and income reduction.

To ensure that banks understand and control these risks, the OCC, other federal banking agencies, and the Conference of State Bank Supervisors issued a joint advisory in January 2010, reminding institutions of supervisory expectations regarding sound practices for measuring, monitoring, and managing interest rate risk. Ultimately, as the advisory notes, a bank's tolerance for interest rate risk is a business decision to be determined by its directors and implemented by its managers. The agencies made clear in their advisory that institutions must have control systems and procedures in place to match the amount of risk they undertake. Institutions that take on significant risk require sophisticated models and methodologies. Less complex institutions require less robust systems. Yet, regardless of their tolerance for interest rate risk, all banks are required to have comprehensive policies and procedures that integrate the interest rate risk implications of significant new strategies, products, and businesses into the interest rate risk management process.[5]

[3] Financial Stability Forum, "FSF Principles for Sound Compensation Practices," 2009, at www.financialstabilityboard.org/publications/r_0904b.pdf. The FSF was renamed the Financial Stability Board in April 2009.

[4] OCC Bulletin 2010-24, "Interagency Guidance on Sound Incentive Compensation Policies," June 30, 2010, at www.occ.gov/news-issuances/bulletins/2010/bulletin-2010-24.html.

[5] "Advisory on Interest Rate Risk Management," January 6, 2010, at www.occ.gov/news-issuances/bulletins/2010/bulletin-2010-1a.pdf.

Off-Balance-Sheet Risks

Under pre-2009 accounting rules, financial institutions were permitted to move certain securitized and other assets off their balance sheets, which in many cases resulted in reduced regulatory capital requirements. But this practice led some banks to become undercapitalized when they came under financial stress during the recession and previously off-balance-sheet funding became unavailable.

In 2009, the Financial Accounting Standards Board (FASB) adopted new rules[6] that required certain financial instruments to be reported on bank balance sheets. In January 2010, the federal banking agencies issued capital regulations based on, and consistent with, the new FASB rules. The net effect of these rules is that banks now have to hold more capital against these previously off-balance-sheet items. The agencies agreed to phase in the new rules over a period of four quarters to mitigate any negative impact on bank lending and economic activity.[7]

Liquidity Risk Management

In March 2010, the federal banking agencies, working with the Conference of State Bank Supervisors, released an Interagency Policy Statement on Funding and Liquidity Risk Management.[8] The statement summarized the principles of sound liquidity risk management and elaborated on supervisory expectations for U.S. banks in corporate governance, strategies and policies, and risk measurement and monitoring.

The 2010 statement recognized how significantly the recession had affected financial markets. Before mid-2007, financial markets were liquid and funding was readily available at relatively low cost. During the recession, funding sources dried up, causing painful consequences for the financial system and the economy.

In response, in September 2008, the Basel Committee released a statement of "Principles for Sound Liquidity Risk Management and Supervision,"[9] drawn from the committee's study of the financial crisis. These principles include

- regular stress tests for liquidity risk,
- use of stress-test outcomes to develop contingency funding plans,
- careful monitoring of banks' cash flow positions, and
- projections of future cash flows by bank officers, supervisors, and, aided by regular public disclosure, financial market participants.

Regulatory enhancements adopted by the Basel Committee in July established the first global standards for bank liquidity.

[6] Financial Accounting Statement (FAS) 166. "Accounting for Transfers of Financial Assets," and FAS 167, "Amendments to FASB Interpretation No. 46(R)."

[7] OCC News Release 2010-13, "Agencies Issue Final Rule for Regulatory Capital Standards Related to Statements of Financial Accounting Standards Nos. 166 and 167," January 21, 2010, at www.occ.gov/news-issuances/news-releases/2010/nr-ia-2010-6.html.

[8] At www.occ.gov/news-issuances/federal-register/75fr13656.pdf.

[9] At www.bis.org/publ/bcbs144.pdf.

Monitoring Credit Quality

Monitoring and evaluating the quality of the loans and investments of national banks is fundamental to the OCC's supervisory program. OCC examiners evaluate asset quality and the adequacy of a bank's credit and investment risk management and controls. They determine whether a bank has properly recorded any losses associated with its loans or investments and whether it maintains adequate loan-loss reserves. The OCC also monitors systemic trends and emerging risks that could adversely affect asset quality or the availability of credit at national banks.

Addressing Problems in Commercial Real Estate Lending

The economic recession highlighted the risks posed by undue asset or liability concentrations in banks' portfolios. Banks with the heaviest concentrations of commercial real estate (CRE) loans—generally, community banks—were especially vulnerable.

In October 2009, the OCC and the other federal banking agencies adopted guidance for use by bank examiners and national banks to promote constructive and consistent resolution of troubled CRE loans. The agencies pointed out that deterioration in the financial condition of CRE borrowers did not automatically render them less creditworthy, if there was evidence of willingness and capacity to repay debt. The guidance further affirmed that renewed or restructured loans to borrowers who have the ability to repay their debts according to reasonable modified terms will not be subject to adverse classification by examiners solely because the value of the underlying collateral has declined to an amount that is less than the loan balance.[10] To help facilitate the application of these principles, the guidance includes examples of common CRE workout transactions and how the appropriate supervisory treatment may vary depending on specific fact patterns.

Survey of Credit Underwriting Practices

In August 2010, the OCC published its 16th annual *Survey of Credit Underwriting Practices* to identify trends in lending standards and credit risk for the most common types of commercial and retail credit offered by national banks. The survey provides insight into the factors that may be affecting banks' pricing and underwriting policies and provides the OCC's view on whether the inherent credit risks in bank portfolios are increasing or decreasing.

The 2010 survey includes examiner assessments at 51 of the largest national banks, with assets of $3 billion or more, representing a total of $4 trillion in outstanding loans. Overall, OCC examiners found a continuation of the trend toward rising credit risk in bank loan portfolios and tighter underwriting standards, although the number of banks that tightened standards declined slightly.

For the first time in three years, the survey reported a modest easing of credit standards in select product categories, as banks responded to renewed competitive pressures. This trend suggests credit availability may generally improve in the months ahead.

Shared National Credits Review

Shared National Credits, often referred to as syndicated loans, are loan commitments of $20 million or more held by multiple federally supervised financial institutions. Each year since the Shared National Credit Program began in 1977, the OCC and other federal banking

[10] Federal Financial Institutions Examination Council, "Policy Statement on Prudent Commercial Real Estate Loan Workouts," October 30, 2009, at www.ffiec.gov/guidance/cre103009.pdf.

agencies[11] have reviewed a sample of those loans across the banking system to determine

- how well those loans are underwritten,
- how much credit risk they represent,
- how accurately banks are assigning risk ratings, and
- whether the banks are in compliance with loan classification rules.

In 2010, Shared National Credit commitments totaled about $2.5 trillion, a 12.6 percent decline from 2009 levels. The banking agencies reviewed approximately $1 trillion of those commitments. Eighteen percent were criticized,[12] a decrease of more than 30 percent from record levels reported last year, with the improvement in credit quality especially notable in the automotive, materials and commodities, and finance and insurance sectors. The severity of the criticism also declined, as credits classified as "doubtful" or "loss" decreased by 56.4 percent.

Resolving Problem Banks

The goal of OCC supervision is to identify and correct potential issues at an early stage, before they adversely affect the safety and soundness of the banking system or the viability of any individual bank. Nonetheless, the financial crisis brought an increase in the number of problem banks that required more intensive supervisory attention. When a national bank's condition is impaired, the OCC develops a plan that considers the ability and willingness of the bank's management and board of directors to correct deficiencies in a timely manner and return the bank to a safe and sound condition. Most banks subject to heightened supervisory attention can be rehabilitated. When problems are serious and well documented, however, enforcement action may be warranted.

The OCC uses a range of enforcement tools to direct necessary corrective actions, including cease-and-desist orders, removal or prohibition orders, civil money penalties, and formal agreements. Statistics on OCC enforcement actions in 2010 are presented in section five of this *Annual Report.*

Despite comprehensive supervisory oversight, 30 national banks failed in 2010, compared with 13 in 2009. The increase in bank failures reflected the adverse economic climate, which especially affected financial institutions with excessive asset concentrations (particularly in commercial real estate) and an inordinate reliance on non-core funding, especially brokered deposits.

Under the provisions of the Federal Deposit Insurance Corporation Improvement Act of 1991, the OCC seeks to resolve insolvent institutions at the lowest possible cost, minimizing the impact on customers and on the deposit insurance fund. To that end, in 2010 the OCC made the first use of the "shelf charter," a new mechanism that involves the granting of preliminary approval to investors for a national bank charter. The charter remains inactive, or "on the shelf," until such time as the investor group is in a position to acquire a troubled institution. By granting the preliminary approval of shelf charters, the OCC expanded the new equity capital available to bid on troubled institutions through the FDIC's bidding process.[13]

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[11] The other federal banking agencies are the Federal Reserve, the Federal Deposit Insurance Corporation (FDIC), and the Office of Thrift Supervision (OTS).

[12] A "criticized" loan is one with compromised repayment prospects. Loans are subject to varying degrees of criticism by examiners.

[13] OCC News Release 2010-8, "OCC Approves First Use of 'Shelf Charter' to Acquire Failed Bank," January 22, 2010, at www.occ.gov/news-issuances/news-releases/2010/nr-occ-2010-8.html, and OCC News Release 2010-82, "OCC Approves Use of Second Shelf Charter to Acquire Three Failed Banks," July 16, 2010, at www.occ.gov/news-issuances/news-releases/2010/nr-occ-2010-82.html.

Promoting Credit Availability to Creditworthy Borrowers

The market turmoil of 2008–2009 led to a dramatic contraction in credit availability. Even after the most acute phase of the crisis ended, credit continued to be sluggish in 2010, with wary lenders and weak loan demand from businesses and consumers who were more focused on liquidating the debt already on their books. One critical category, small loans to farms and businesses, dropped by more than $12 billion, or 4.3 percent, in the four quarters ending on June 30, 2010. The loan portfolios of the largest national banks registered the sharpest declines.

In 2010, lending to small business was a matter of concern for bank regulators, due to the crucial role that small business plays in the nation's job creation and its traditional dependence on bank lending. To improve the quality and timeliness of data available on small-business lending, the OCC and the other federal banking agencies began requiring banks to report small-business lending quarterly rather than annually. This change enables the agencies to better track credit flows throughout the business cycle.

In addition, supervisory guidance during the year encouraged prudent small business lending. A February 2010 interagency statement reminded bankers to understand the long-term viability of a borrower's business and not automatically refuse credit to sound borrowers simply because of the borrower's industry or location. The agencies affirmed that loans to small business would not be adversely classified by bank examiners when they were provided in accordance with the sound underwriting and risk management practices spelled out in the statement.[14]

The American Recovery and Reinvestment Act of 2009 brought important changes to several crucial loan-guarantee programs administered by the Small Business Administration (SBA). For example, the SBA's flagship 7(a) program, which provides guaranteed financing for a variety of general business purposes, was enhanced to eliminate some fees and raise guarantee levels, while the SBA's 504 program for long-term fixed assets was extended to permit some refinancing of other debt.

The OCC worked to inform lenders about these changes and to encourage lenders to take advantage of them. A Web and telephone seminar on small business lending, organized by the OCC's Banking Relations Division, attracted hundreds of bankers, and OCC examiners and staff members from the agency's Community Affairs Department gave presentations on these programs at banker conferences. The OCC's *Community Developments* newsletter devoted its spring 2010 issue to exploring ways for banks to take advantage of these and other opportunities to promote small-business growth and community development under provisions of the Recovery Act. A second Web and telephone seminar, focusing on how community banks can use SBA loan programs and the Export–Import Bank of the United States to support small-business exporters, was developed for delivery early in fiscal year 2011.

[14] OCC News Release 2010-14, "Regulators Issue Statement on Lending to Creditworthy Small Businesses," February 5, 2010, at www.occ.gov/news-issuances/news-releases/2010/nr-ia-2010-14.html.

Compliance Initiatives

Bank compliance with provisions of the fair lending laws, the Community Reinvestment Act (CRA), and other consumer-related laws and regulations constitute a major focus of the OCC's supervisory and enforcement program. The agency also conducts multifaceted programs to promote financial literacy and education, consumer awareness, and community development.

Fair Lending

The OCC examines national banks for compliance with laws prohibiting discrimination in mortgage lending on the basis of race, color, national origin, sex, familial status, or physical disability. Every national bank undergoes rigorous analysis of its procedures and systems to ensure that the institution meets the letter and the spirit of the fair lending laws.

In 2010, the OCC enhanced its fair lending supervision. The agency implemented a revised screening process for fair lending risk at large banks, using a new process for data collection and analysis that would identify potential risks in a more timely and effective manner. The agency also published an updated *Comptroller's Handbook* booklet on fair lending, giving bankers and examiners updated guidance on how to evaluate loan pricing, broker activity, redlining violations, and illegal steering of borrowers to higher cost loans.

Reverse Mortgages

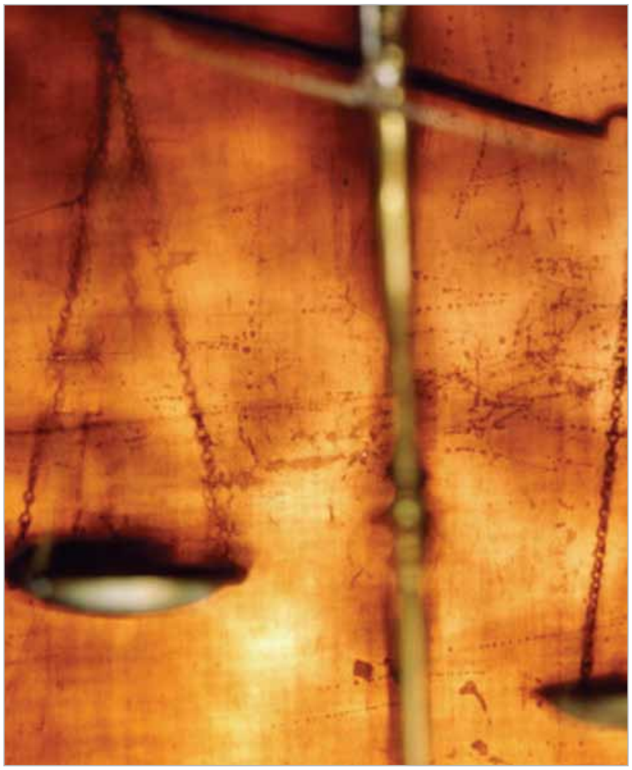
Reverse mortgages, which provide homeowners age 62 or older with payments based on the value of their homes, have become increasingly popular. In September 2009, the OCC advised that this relatively new product, which sometimes has been characterized by high fees, misleading marketing claims, and cross-selling abuses, posed both compliance and safety and soundness risks.[15] In August 2010, the OCC and other federal banking agencies issued supervisory guidance on managing these risks. The guidance stresses the need for lenders to provide consumers considering such products with adequate information and counseling. Financial institutions offering reverse mortgages will be required to report on the volume of such mortgages that they hold or have originated and sold during the year and the volume of referrals they made to other lenders for a fee for such products.

Safeguarding Personal Information

In April 2010, the OCC and other federal banking regulators released a model privacy notice form designed to safeguard the privacy of consumers and an online tool that financial institutions can use to customize the form to suit their individual needs. These new instruments were the product of a multiyear effort that involved extensive consumer research, testing, and public review and comment.

The actions stem from the OCC's responsibility for oversight of how financial institutions comply with the provisions of the Gramm–Leach–Bliley Act of 1999 governing information sharing. That law requires banks to notify consumers of the institutions' information-sharing practices and inform consumers of their right to opt out of certain sharing practices. Later legislation required the OCC and the other federal banking agencies to develop succinct and comprehensible model forms that allow consumers to easily compare the privacy practices of different financial institutions.

[15] For a discussion of reverse mortgages, see the OCC's *Annual Report Fiscal Year 2009*, p. 16, at www.occ.gov/static/publications/annrpt/2009AnnualReport.pdf.



Bank Secrecy Act Enforcement

The Bank Secrecy Act (BSA) requires financial institutions to assist in the effort to detect and prevent money laundering and assigns responsibility for oversight of BSA compliance by national banks to the OCC. In 2010, the OCC continued to make its anti-money laundering (AML) and BSA enforcement program more effective.

In April 2010, the federal banking agencies issued a revised examination manual that incorporated regulatory changes since 2007, including a new section on bulk currency shipments and updates relating to electronic cash, third-party payment processors, and Automated Clearing House transactions. The OCC also refined its existing Money Laundering Risk System to help community banks identify—and take steps to address—their BSA/AML risks.

Consumer Enforcement Actions

The OCC may take formal and informal enforcement actions against national banks determined to be in violation of consumer protection laws and regulations. In 2010, the OCC took action against two offending banks that resulted in the imposition of large penalties and restitution.

In February 2010, the agency reached agreement with Capital One Bank, N.A., of Glen Allen, Virginia, and directed it to provide redress to customers harmed by the bank's credit-card account-closing practices. The practices in question occurred from 2004 to 2006, before Capital One became a national bank subject to OCC supervision. The practices cited in the settlement involved the bank's assessment of annual membership fees on accounts with no outstanding balance owed, after customers had requested that the accounts be closed. In the settlement with the OCC, the bank agreed to reimburse consumers in the amount of $775,000.[16]

In the second case, in April 2010, the OCC directed T Bank, N.A., of Dallas, Texas, to provide restitution totaling $5.1 million to more than 60,000 customers adversely affected by its account relationships with a third-party payment processor and several telemarketers and Internet merchants. The practices involved the use of remotely created checks (RCC), which are checks not created or signed by the accountholder. Instead, the signature block of the check includes such text as "authorized by your depositor, no signature required." The OCC found that nearly 60 percent of these RCCs were returned to the bank by individuals or their financial institutions, who said they had not authorized the checks or had not received the products or services promised by the merchant.

[16] OCC News Release 2010-16, "OCC Reaches Agreement with Capital One on Unfair Credit Card Account Closing Practices," February 18, 2010, at www.occ.gov/news-issuances/news-releases/2010/nr-occ-2010-16.html.

As part of the settlement with the OCC, the bank, in addition to its restitution to consumers, agreed to pay a civil money penalty of $100,000 to the U.S. Treasury and to develop new policies and procedures governing RCCs.[17]

Consumer Protection and Financial Literacy Initiatives

In September 2010, in a statement accompanying the release of the U.S. Department of the Treasury's draft National Strategy for Financial Literacy, Secretary of the Treasury Timothy F. Geithner noted that "the recent financial crisis taught us an enduring lesson. Financial literacy is essential not only to the financial security of millions of American families, but also to the economic health of our nation as a whole."

A broad coalition of state, national, and local organizations is working to provide the information Americans need to make sound financial decisions. The President's Advisory Council on Financial Capability, the Treasury Department's Office of Financial Education, and the Financial Literacy and Education Commission created by Congress provide high-level visibility and direction. Nonprofit organizations, such as the Council for Economic Education, the Consumer Federation of America, and the JumpStart Coalition for Personal Financial Literacy, conduct surveys, produce and distribute educational materials, and help mobilize the resources of the private sector to support the goal of a nation in which every citizen understands the basics of saving and budgeting.

National banks play an important role in this nationwide effort by working with nonprofit groups to promote savings-match programs (also known as Individual Development

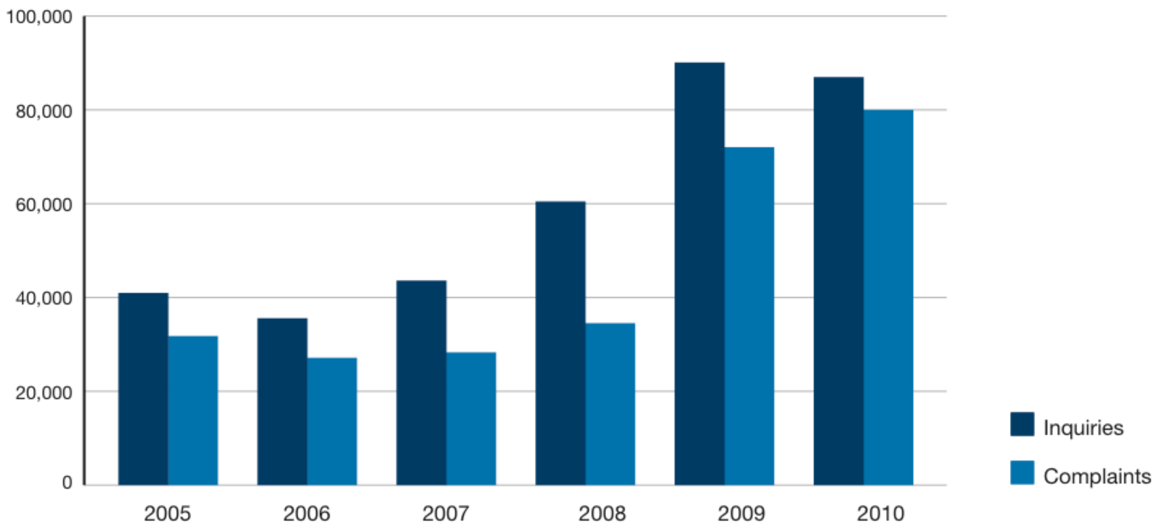
Congressional staff members learn more about the OCC's efforts to promote financial literacy.

Accounts) and school savings programs for children, and by sponsoring in-bank workshops on asset building and credit management.

The OCC and other financial regulators are uniquely positioned to assist in the financial literacy effort because their representatives interact directly with banks and with bank customers through the complaint intake and resolution process. The OCC reaches out to consumers through its program of formal alerts and advisories as well as its participation with other federal agencies in such events as America Saves Week each February and Financial Literacy Day on Capitol Hill. The OCC operates a consumer-focused Web site, HelpWithMyBank.gov, conducts print and electronic media campaigns, and works directly with individual bank customers through its Customer Assistance Group.

[17] OCC News Release 2010-45, "OCC, T Bank Enter Agreement to Reimburse Consumers," April 19, 2010, at www.occ.gov/news-issuances/news-releases/2010/nr-occ-2010-45.html.

Figure 1: Customer Assistance Group, Inquiries and Complaints



Source: OCC data.
Note: Data for fiscal year 2010 are annualized to reflect projections for calendar year 2010.

Customer Assistance Group

The OCC's Customer Assistance Group facilitates communication between national banks and their customers and provides a mechanism for resolving consumer complaints relating to banking laws and regulations.

As shown in Figure 1, the Customer Assistance Group has registered large increases in the number of consumer complaints in recent years. A number of factors may have contributed to the increase, including

- the financial stress facing households and businesses;
- rising mortgage problems, which in the third quarter of 2010 were the subject of the largest number of complaints to Customer Assistance Group, for the first time overtaking credit card issues;
- the merger or conversion of several major financial institutions, with their millions of customers, into the national banking system; and
- the success of OCC efforts to build public awareness of the remedies available for dispute resolution between banks and their customers.

To cope with the increased demand for its services, the Customer Assistance Group made improvements to its systems and procedures. It implemented an online complaint form, which speeds processing times. It created the Complaint Referral Express system so that complaints mistakenly forwarded to the OCC can be redirected more quickly to the appropriate state or federal banking agency for processing. And it reoriented its priorities to ensure that complaints related to mortgage restructuring, which are especially time sensitive, receive the attention they require to facilitate resolution.

Outreach: Bringing Financial Literacy Into America's Households

When the OCC's supervisory or complaint-handling activities discover practices that pose particular risks for bank customers, the agency often issues a consumer advisory or alert. For example, on the eve of the 2009–2010 holiday buying season, the agency released its annual reminder encouraging consumers to read the fine print on gift cards to avoid unexpected fees or usage restrictions.

The OCC's public service program delivers messages to consumers through the national media. In 2010 the OCC issued four public service announcements—on overdraft protection, refund anticipation loans, protection of tenants living in foreclosed properties, and gift cards.

Community Development

Since the 1960s, when OCC regulations began to encourage the practice, national banks have provided billions of dollars in investments to distressed communities across the nation. Federal programs support these initiatives through tax credits and other incentives to expand low-income housing and social services, attract new industry and small business, promote renewable energy, and rehabilitate historic buildings in these communities. For their part, financial institutions benefit from the business opportunities that arise from more vibrant communities and more prosperous customers. These activities may also qualify national banks for favorable consideration under the CRA.

The economic slowdown threatened to derail this progress by hampering banks' ability to lend and reducing the income against which tax credits can be applied. In response, Congress revamped some programs, substituting direct subsidies for tax credits (to revive investment in low-income housing) and changing the rules to make those credits more valuable. Most recently, Dodd–Frank sought to encourage public welfare investment by specifically exempting it from legal restrictions on private equity investment by national banks.

Then-Comptroller John C. Dugan greets a woman during his tour of community development projects in San Francisco.

In 2010, the OCC emphasized opportunities for meaningful and profitable community development involvement by national banks.[18] In November 2009, then-Comptroller John C. Dugan conducted a tour of successful projects in San Francisco, such as an "incubator kitchen" for training and developing food entrepreneurs. In March 2010, the OCC co-sponsored the National Interagency Community Reinvestment Conference in New Orleans, attended by more than 700 representatives from the regulatory agencies, financial institutions, and nonprofit organizations. During the four-day conference, attendees came together to deepen their understanding of how CRA works and to share best practices. During the year, the OCC also published two *Community Developments Investments* newsletters that discussed the types of public welfare investments that national banks have made in small business, affordable housing, and other community and economic development initiatives—examples the OCC hopes other lenders might emulate.

[18] Speech by John C. Dugan, International Economic Development Council, April 20, 2010, at www.occ.gov/news-issuances/speeches/2010/pub-speech-2010-47a.pdf.

At the same time, the OCC worked to make the CRA regulations more flexible and responsive to changes in the financial services industry, changes in how banking services are delivered to consumers, and current housing and community development needs. The original CRA rules required banks to demonstrate that CRA-qualified community development investments benefited the bank's assessment area—generally, the community in which the bank takes deposits. Over the years, the agency broadened the rules to expand CRA-eligible activities for out-of-area banks when needed, for example, in the aftermath of Hurricanes Katrina and Rita in 2005.

In 2010, the banking agencies adopted a new rule under which they will provide favorable CRA consideration for low-cost higher education loans to low-income borrowers. To promote community development activities in areas where foreclosure and housing abandonment are especially problematic, they proposed a rule that would provide favorable CRA consideration for certain activities conducted under the auspices of the Neighborhood Stabilization Program, administered by the U.S. Department of Housing and Urban Development.

Acting Comptroller John Walsh joins other federal regulators in Los Angeles at a public hearing on the Community Reinvestment Act.

The OCC participated with the other federal bank regulators in four joint public hearings during the summer of 2010 to gather public comments on modernizing the CRA regulations. The daylong hearings, held in Arlington, Virginia; Atlanta; Chicago; and Los Angeles, attracted approximately 140 witnesses from a diverse group of individuals and agencies representing the nonprofit, public, and private sectors. Written public comments also were solicited. Acting Comptroller John Walsh chaired the August 19, 2010, Los Angeles hearing, which heard from more than 40 witnesses. As a result of these hearings, the OCC received more than 1,400 written comments on revising the CRA regulations.

Toward the Future: Basel III and Dodd–Frank

The return of more stable financial markets shifted attention to determining what had gone wrong systemically and what steps need to be taken to avoid future crises. To that end, Congress created a bipartisan Financial Crisis Inquiry Commission with a mandate to produce a comprehensive report by December 2010. Then-Comptroller Dugan and former Comptroller John D. Hawke Jr. were among the witnesses who testified before the commission in 2010.[19]

The OCC is committed to learning from recent experience as it reconsiders its own policies and practices. As Senior Deputy Comptroller and Chief National Bank Examiner Timothy W. Long said, the "perspective of the recent past offers invaluable insights we can and should use as we implement Dodd–Frank and various other

[19] Statement of John C. Dugan, Financial Crisis Inquiry Commission hearing, April 8, 2010, at www.fcic.gov/hearings/pdfs/2010-0408-Dugan.pdf; Statement of John D. Hawke Jr., April 8, 2010, at www.fcic.gov/hearings/pdfs/2010-0408-Hawke.pdf.

regulatory and policy initiatives."[20] In his final speech before leaving the Comptroller's office in August 2010, Mr. Dugan posed the tough questions that were on many people's minds: "Did we fail to learn from our past mistakes, or did we take the wrong measures to address those mistakes?" he asked. "And what makes us think that the measures we're taking now will have any better success in the future?" [21]

An accounting of the history of the crisis from a bank regulatory standpoint reveals both successes and failures. The OCC took action early on to flag the risks inherent in rising concentrations of commercial real estate loans, and it was first among the regulatory agencies to warn about the danger to holders of "nontraditional" mortgages in the event that mortgage rates rose and property values declined. The OCC's policies kept the origination of predatory forms of subprime lending largely outside the national banking system. The Troubled Asset Relief Program (TARP), which the OCC helped administer, helped stabilize the financial system. The OCC was also deeply involved in the Supervisory Capital Assessment Program (SCAP), which marked a turning point in the financial crisis. SCAP's high-profile "stress tests" proved to the satisfaction of the financial markets that the nation's largest banks had sufficient capital to withstand an economic scenario that was even worse than expected.[22]

But the record shows that the nation's bank regulators could have done more, both as

Then-Comptroller John C. Dugan joins in congratulating President Obama upon the signing into law of the Dodd–Frank Wall Street Reform and Consumer Protection Act of 2010.

individual agencies and collectively across jurisdictions. Regulatory guidance on CRE concentrations did not prevent some banks from compiling construction and development loans to a degree that eventually overwhelmed them. Some financial providers, ranging from storefront mortgage originators to giant Wall Street investment firms, took advantage of inconsistent regulatory requirements for different types of institutions. Accounting rules made it more difficult for banks to build sufficient loan-loss reserves. And for some banks, capital proved inadequate to the stresses they eventually faced, and early intervention permitted under the Prompt Corrective Action provisions of the Federal Deposit Insurance Corporation Improvement Act of 1991 proved insufficient to stop failures or losses to the insurance fund.

To address the capital and liquidity shortcomings exposed by the financial market upheaval, the Basel Committee on Banking Supervision adopted a set of regulatory enhancements that has come to be known as Basel III. This new agreement, which supplements some provisions of the Basel Accords of 1988 and 2004 and supplants others, refines the definition of regulatory

[20] Speech by Timothy W. Long, American Institute of CPAs' National Conference on Banks and Savings Institutions, September 14, 2010, at www.occ.gov/news-issuances/speeches/2010/pub-speech-2010-108.pdf.

[21] Speech by John C. Dugan, Exchequer Club, July 21, 2010, at www.occ.gov/news-issuances/speeches/2010/pub-speech-2010-84a.pdf.

[22] Speech by John C. Dugan, Federal Reserve Bank of Richmond 2010 Credit Markets Symposium, April 15, 2010, at www.occ.gov/news-issuances/speeches/2010/pub-speech-2010-42a.pdf.

capital to emphasize the importance of common equity, the most loss-absorbing kind of capital. The Basel III agreement more appropriately addresses certain categories of risk that were highlighted by the recent financial crisis and establishes global minimum liquidity standards. It also creates the first international leverage (that is, non-risk-weighted) ratio requirements and includes strong treatment for derivatives and off-balance-sheet items. The Basel Committee agreed that implementation of the new requirements would begin in 2013, with the full framework to be phased in by 2019. The Basel III agreement will serve as a foundation for forthcoming rulemakings to implement these changes in the United States.

The Dodd–Frank legislation addressed many of the structural problems revealed by the financial crisis. The legislation will affect the financial services industry in a profound way, and it has already had a major impact on the OCC. The agency consulted extensively with congressional staff during the development of the legislation and is tasked under its provisions to draft rules, both jointly and in coordination with other agencies. The topics subject to Dodd–Frank rulemaking include

- regulatory capital,
- permissible proprietary trading,
- hedge fund and private equity fund investments,
- margin requirements for derivatives,
- executive compensation, and
- real estate appraisals.

The OCC also faces the task of integrating into its organization and operations the personnel, property, and systems of the OTS, which was abolished under Dodd–Frank. On July 21, 2011, the OTS and the majority of its staff of dedicated public servants will be integrated into the OCC.

The OCC will be represented on a new body, the Financial Stability Oversight Council (FSOC), whose mission is to promote market discipline and respond to emerging threats to the stability of the U.S. financial system. And under Dodd–Frank the OCC's responsibilities for consumer protection in large national banks, and some of the people who carry them out, will migrate to the new Bureau of Consumer Financial Protection.[23]

In testimony before the Senate Committee on Banking, Housing and Urban Affairs, Acting Comptroller John Walsh discusses Dodd–Frank implementation activities and the Basel III agreement.

The OCC faces major challenges in implementing the many new rules and organizational arrangements instituted by Dodd–Frank. As it helps build the future framework for regulation, the agency will rely on the talent, expertise, judgment, and dedication of the staff who helped the national banking system withstand the worst crisis since the Great Depression.

[23] Testimony of John Walsh, Acting Comptroller of the Currency, September 30, 2010, at www.occ.gov/news-issuances/congressional-testimony/2010/pub-test-2010-119-written.pdf.

Section Two

The OCC in America's Communities

Coping With Foreclosure

HOPE NOW is a national coalition of lenders, financial regulators, and nonprofit housing and counseling agencies working to mitigate the impact of the national recession on homeowners. One recent HOPE NOW event co-sponsored by the OCC in Los Angeles gave hundreds of homeowners information about government programs designed to help avoid foreclosure and an opportunity to communicate directly with mortgage servicers.

Such communication is crucial. Surveys show that roughly 50 percent of borrowers who go into foreclosure have never been in touch with their mortgage lender. "That's unfortunate," says Barry R. Wides, the OCC's Deputy Comptroller for Community Affairs, "because more than one-third of those who do reach out for assistance are successful in finding alternatives to foreclosure. The sooner they talk to someone, the more likely it is that foreclosure can be avoided."

Community Affairs Officer David Lewis represented the OCC at the Los Angeles event, and he saw how much of a lift it provided to distressed homeowners. "When the individuals or families first came in, they'd stop by the OCC table," he recalls. "They were pretty down." Just being able to talk about their situations with such experts as Mr. Lewis seemed to make a difference, and some attendees told him "they appreciated being heard by bankers."

In talking to homeowners in Los Angeles and throughout the country, OCC staff highlighted the risk of dealing with third parties who say they want to help but who are really interested in helping themselves. All too often, they don't deliver what they promise. "The best place for getting answers on how to save your house is the same place you make your payments," says Mr. Lewis. "If you don't talk to the bank, you might wind up talking to scam artists." He tells homeowners to think twice before accepting an offer from someone promising to negotiate a loan modification or foreclosure abatement in exchange for upfront fees.

OCC representatives collaborate with event participants and sponsors during a HOPE NOW workshop.

In addition to sponsoring HOPE NOW conferences, the OCC, banks, and nonprofit groups have created foreclosure prevention task forces, which hold community outreach fairs, coordinate foreclosure prevention counseling, and place print and radio advertisements to reach out to people facing foreclosure. The banks also train nonprofit counselors in how best to work with banks to resolve troubled loans and help borrowers keep their homes.

On the supervisory side, the OCC promotes constructive workout arrangements between lenders and homeowners. Since the beginning of the market turmoil, OCC examiners have encouraged national banks to work with delinquent borrowers to restructure problem loans, giving stressed borrowers more time and flexibility to resolve their obligations. The OCC also joined other federal banking agencies in issuing a final rule providing that mortgage loans restructured under the Treasury Department's Home Affordable Modification Program (HAMP) will generally retain the risk-based capital weight appropriate to the loan prior to modification.

When mortgage restructuring is not feasible, however, lenders may have no choice but to foreclose on the property. In such cases, the OCC expects national banks to abide by all applicable state and federal laws governing documentation and by their own procedures. At the end of the year, the agency began an examination of large mortgage servicers' foreclosure practices to ensure that these requirements were being met.

To better illuminate positive and negative trends in the nation's critical housing market, the OCC and the OTS compile detailed, consistent data on more than 30 million loans held or serviced by large national banks and thrifts and then publish the data quarterly in the *OCC and OTS Mortgage Metrics Report*. The report has become one of the financial industry's primary sources for data on home mortgage performance, foreclosures, and the effectiveness of loan modifications.

The report issued at the end of September 2010 showed a welcome trend toward stability in the credit quality of first-lien mortgages. As of June 30, 2010, the mortgage delinquency rate held at approximately the same level as in the previous quarter. Although completed foreclosures were up, newly initiated foreclosures were down. Moreover, mortgage modifications increased, and an increasing number of recent modifications, which decreased borrowers' monthly principal and interest payments, performed better than earlier modifications.

"Shining a bright spotlight on high re-default rates through OCC–OTS mortgage metrics data resulted in real improvements in the quality of more recent loan modifications by creating an emphasis on affordable and sustainable monthly loan payments since we began tracking that data in late 2008," says Joseph Evers, the OCC's Deputy Comptroller for Large Banks. "Better-performing loan modifications mean fewer foreclosures, more families keeping their homes, and less risk of loss deferral."

Imbalances in the U.S. housing market will take a long time to be resolved. In the meantime, the OCC is working hard to mitigate the impact of foreclosures on homeowners and communities and to hasten the full recovery of this crucial sector of the national economy.

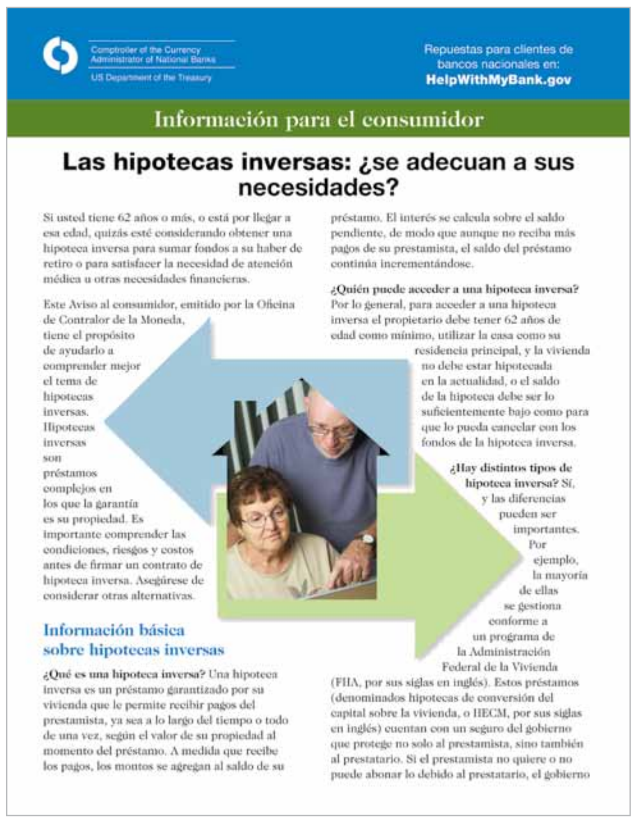
The OCC en Español

More than 35 million Americans speak Spanish as their primary language. In 2010, the OCC reached out to provide expanded bilingual access to its services. Spanish-speaking agents are now available to assist bank customers who call the Customer Assistance Group, and Spanish-language versions of consumer-complaint forms are available on occ.gov. The "Frequently Asked Questions" section of HelpWithMyBank.gov is available in Spanish, and the OCC's public service announcements are now routinely released in both English and Spanish.

The OCC's office of External Outreach and Minority Affairs, which operates within the Public Affairs Department, has had longstanding ties with Spanish-language media outlets in the Washington, D.C., area. In 2010, this outreach became national in scope when the OCC entered a partnership with Univision Communications, the largest Spanish-language media company in the United States. Together, they launched a financial education campaign aimed at Spanish-speaking consumers—consumers who, as External Outreach and Minority Affairs Senior Adviser Glenda Cross points out, "may not necessarily subscribe to the traditional media outlets that the OCC has used."

The first product of the new partnership, "*Conozca la OCC*" (Meet the OCC), introduced the Univision audience to the agency, describing its mission and its commitment to providing consumers with financial information and support. Subsequent video public service announcements dealt with such key consumer issues as gift cards, check fraud, reverse mortgages, and new rules governing credit cards.

It is too soon to quantify the benefits of this initiative for consumers. But both the OCC and Univision take great pride in bringing financial literacy information directly into millions of Spanish-speaking homes.


Comptroller of the Currency
Administrator of National Banks
US Department of the Treasury

Repuestas para clientes de bancos nacionales en: **HelpWithMyBank.gov**

Información para el consumidor

Las hipotecas inversas: ¿se adecuan a sus necesidades?

Si usted tiene 62 años o más, o está por llegar a esa edad, quizás esté considerando obtener una hipoteca inversa para sumar fondos a su haber de retiro o para satisfacer la necesidad de atención médica u otras necesidades financieras.

Este Aviso al consumidor, emitido por la Oficina de Contralor de la Moneda, tiene el propósito de ayudarlo a comprender mejor el tema de hipotecas inversas. Hipotecas inversas son préstamos complejos en los que la garantía es su propiedad. Es importante comprender las condiciones, riesgos y costos antes de firmar un contrato de hipoteca inversa. Asegúrese de considerar otras alternativas.

Información básica sobre hipotecas inversas

¿Qué es una hipoteca inversa? Una hipoteca inversa es un préstamo garantizado por su vivienda que le permite recibir pagos del prestamista, ya sea a lo largo del tiempo o todo de una vez, según el valor de su propiedad al momento del préstamo. A medida que recibe los pagos, los montos se agregan al saldo de su préstamo. El interés se calcula sobre el saldo pendiente, de modo que aunque no reciba más pagos de su prestamista, el saldo del préstamo continúa incrementándose.

¿Quién puede acceder a una hipoteca inversa? Por lo general, para acceder a una hipoteca inversa el propietario debe tener 62 años de edad como mínimo, utilizar la casa como su residencia principal, y la vivienda no debe estar hipotecada en la actualidad, o el saldo de la hipoteca debe ser lo suficientemente bajo como para que lo pueda cancelar con los fondos de la hipoteca inversa.

¿Hay distintos tipos de hipoteca inversa? Sí, y las diferencias pueden ser importantes. Por ejemplo, la mayoría de ellas se gestiona conforme a un programa de la Administración Federal de la Vivienda (FHA, por sus siglas en inglés). Estos préstamos (denominados hipotecas de conversión del capital sobre la vivienda, o HECM, por sus siglas en inglés) cuentan con un seguro del gobierno que protege no solo al prestamista, sino también al prestatario. Si el prestamista no quiere o no puede abonar lo debido al prestatario, el gobierno

The Spanish-language version of an OCC Consumer Advisory on reverse mortgages.

Responding to Crisis

For the people of the Gulf Coast, the Deepwater Horizon oil spill was an economic as well as an environmental disaster. The local energy, fishing, and tourism industries and the millions who depend on them suffered major losses.

Once the scope of the disaster became clear, the OCC joined with other financial regulatory agencies to encourage banks to help their customers cope with the disruption to their lives. Recognizing that people suddenly cut off from their income might well need access to emergency funds, the guidance recommended that banks consider waiving fees and penalties for early withdrawal of savings. It also encouraged expedited lending decisions, the restructuring of debt obligations, and the easing of credit terms or fees for loans to certain borrowers, consistent with prudent banking practice. In response, national banks serving the Gulf Coast region set aside emergency reserves, delayed action against overdue borrowers, and helped disburse aid funds to those harmed by the spill.

It was not the first time in recent memory that the people of the Gulf Coast have borne the brunt of disaster. In 2005, New Orleans and nearby communities were devastated by Hurricane Katrina. Many banks were closed by the flooding. But bank personnel set up temporary facilities elsewhere and worked day and night to assist in the recovery of distressed customers and their communities.

Since their founding in 1863, the OCC and the national banking system have supported the United States and its communities in time of crisis. After World War II, Comptroller Preston Delano reported to Congress that "the national banks of the United States contributed generously and efficiently to the war effort. Despite depleted staffs, they successfully shouldered the heavy burden placed upon them in connection with the financing of the production of war materials and in spearheading the Government's bond drives."

And in the aftermath of the tragedies of September 11, 2001, national banks went to extraordinary lengths to meet their customers' needs for cash and other essential banking services. For a people shaken by terrorist attack, the symbolic importance of a national banking system "still standing, still functioning, still capable of delivering virtually any service on September 11 that it offered on September 10," as then-Comptroller John D. Hawke Jr. put it, was incalculable.

Community Banks Keep America Working

Somerville, in the southwestern corner of Ohio, is a town of about 300 people, most of whom work in the construction trades and health care. The whole town covers less than a third of a square mile. As late as the 1980s, the national bank in Somerville ranked among the smallest 1 percent of all nationally chartered banks in America.

But the little community bank recently received a rare national honor. On September 28, 2010, the Comptroller of the Currency gave the Somerville National Bank a certificate "in recognition of the bank's 100 years of distinguished service and contributions to its community." Of the 317 national banks founded in 1910, only 20 retain their original charter in 2010. All the rest were subjects of merger, acquisition, charter switch, or failure.

Aside from its remarkable longevity, the Somerville bank, 30 miles north of Cincinnati, is a typical community bank. With six branches and about $150 million in assets, the bank is no longer among the smallest 1 percent. But it stays in close touch with its customers—small depositors, home buyers, ranchers, and corn and soybean farmers outside of town.

OCC examiners say that Somerville's customer service is what sets it apart from other banks. Tellers greet customers and their children by name when they walk in the door. "That's why they call us a community bank," explains one Somerville bank director. "It's not just because we're small, but because we're part of the community."

The Somerville National Bank was not the first in Ohio to introduce ATMs or online banking, although it offers those services now. But it did not make excessive real estate loans, either. "We don't loan for more than the property is worth," says the director. "Or lend to borrowers with sub-par credit." The prudent approach has paid off: The bank has lower operating expenses and fewer loan losses than most other banks of its size and type.

The roots of community banking run deep in every corner of America, providing two-thirds of all loans to small businesses. Community banks offer a special brand of personalized service that makes customers feel at home. As small businesses themselves, community banks are well situated to understand the needs of other small businesses in their market.

The OCC plays a key role in the safety and soundness of the Somerville National Bank and all of the nearly 1,400 community banks under the agency's supervision. Many of them are as small as or smaller than Somerville, holding less than $100 million in assets. Such community banks know that they can rely on the OCC and its examiners for their technical expertise. Somerville is a community bank that earns high marks from OCC examiners for its constructive attitude. As one examiner noted, it's a bank that does "not make the same mistake twice."

For 100 years, Somerville National Bank has prided itself on protecting customers' money as if it were its own. According to bank lore, when robbers showed up one winter day in 1930, they had to pistol-whip the bank's founder and cashier, W.B. Bell, before he would turn over the cash.

That independent spirit lives on. Over the century, many people and businesses have come and gone in Somerville, Ohio. The bank's red brick building on Main Street stands just as it was when it was built 100 years ago.

Today's National Bank Examiner: Smart, Public Spirited, Technically Proficient

Most of the OCC's 2,100 national bank examiners are assigned to help supervise the nation's community banks. But their commitment to those communities often goes well beyond the banks in which they work.

Scott Schainost, who heads the OCC's Boston field office, spends some of his free time providing financial literacy instruction in local classrooms. Mr. Schainost values the perspective that he gets from his community service. "I see firsthand how people worry about the basic necessities like food," he says, "yet they pay high fees to payday lenders and check cashing services." His connections have helped bring community groups and local banks together in mutually beneficial partnerships.

For some OCC examiners, community service is another way to give back—and a reminder of the importance of the OCC's mission. For New York-based examiner Naomie Belony, it is an opportunity to become a role model to young people interested in financial careers. "I myself went to an inner-city school," she says. "I had no idea I could be a banker or examiner. Maybe I can inspire my students that it's possible for them, too." Erik Rayford, an examiner in the OCC's Central District, counsels high school students as part of a National Academy of Finance public service program. "One student told me about her ambition to start a bank," he recalls. "I helped find her a job at the local credit union. I told her she really could become a bank president one day. She has the ability. Now she has some of the skills."

What kind of people are these men and women who are so committed to their OCC careers and to their communities? For one thing, they are well educated. The OCC today attracts some of the brightest young people from the nation's campuses and some of the most capable veterans of the financial services industry. Recent crops of college hires bring strong specialized skills to their jobs: 22 percent majored in business administration, 18 percent in finance, 15 percent in accounting, 14 percent in banking and financial support services, and 5 percent in economics. Many OCC examiners go on to obtain advanced credentials and certifications in accounting, business, financial analysis, and information systems—accomplishments that make them even more valuable to the agency.

Senior Deputy Comptroller Douglas W. Roeder offers career advice to attendees of the OCC's Career Forum.

Beyond academic skills, good bank examiners are endowed with a unique temperament. "I think of the examiner as a bit of a detective," says Bonnie Russell, National Recruitment Coordinator in the OCC's Office of Human Resources. "When they arrive at a bank, they must dig for details, be persistent, and solve problems. They combine pieces of information, apply rules or laws, and draw conclusions. Often they must find a relationship between seemingly unrelated information and events. When one exam is finished, they move to another bank and use these same skills again."

New OCC examiners also tend to be technically sophisticated. "This generation of examiners has grown up with technology," says Jim Nowe, an OCC information technology examiner who serves as an instructor in the agency's training programs. "They're comfortable with the computer applications the OCC uses in its daily supervisory business. And they're fluent and at ease in speaking to bankers about information security, deposit and loan processing controls, electronic privacy issues, and intrusion detection and prevention."

One other characteristic of this generation of national bank examiners: They reflect the full diversity of the United States. Women compose 41 percent of OCC examiners, up from 33 percent in 1992. And 24 percent of national bank examiners are members of minority groups, up from 14 percent in 1992.

This skilled, well-rounded, and diverse workforce has been tested in myriad ways in recent years. For some, supervision of the troubled national banking system was a trial by fire, involving long days and nights, heavy travel, and relentless stress. But it provided these examiners with invaluable experience that will serve them and the OCC well in the years to come.

THE OFFICE *of the* COMPTROLLER *of the* CURRENCY

has a diverse workforce of more than 3,100 professionals, including bank examiners, attorneys, economists, community affairs specialists, and administrative staff.

Section Three

Condition of the National Banking System

National bank earnings in 2010 partially recovered from the low levels reached at the depths of the financial crisis in 2008 and 2009. Provision expenses for loan losses declined from year-earlier levels but remained well above where they were before the crisis. Credit losses continued to rise, though more slowly than in 2009. Charge-off rates, while still at post-1990 highs, appear to have peaked for most loan categories. Bank revenues rose modestly from year-earlier levels, driven by solid growth in net interest income at the largest banks. Funding costs have remained low, particularly for the largest banks, which continue to benefit from large amounts of core deposits. Loan demand, however, has grown at only about half the rate that would be expected after a severe recession.

Net income at national banks continued to rise in the first half of 2010, increasing by $22 billion over the same period a year earlier. Profitability as measured by return on equity rose to 7.2 percent for the second quarter, above the level of a year earlier but still well below historical levels.

Provisions and Credit Quality

Loan-loss provisions remain a large factor depressing the earnings of national banks, despite a decline from record levels in 2009. Total provision expenses surged from $15 billion in the first half of 2007 to $90 billion in the first half of 2009, before falling back to $63 billion in the first half of 2010.

Credit quality remained worrisome in 2010. By the end of the second quarter, the ratio of noncurrent loans to total loans had deteriorated for many classes of loans, as well as for loans in the aggregate, relative to the same point in 2009. CRE loans were still deteriorating, and CRE fundamentals, such as vacancy rates and net operating income, were not expected to reach bottom for another year or two. But not all classes of loans have followed the same pattern; in the first half of 2010, the noncurrent ratio improved for credit cards, consumer loans, and loans for the construction of one- to four-family housing.

Total credit losses continued to increase in the first half of 2010, though the rate of increase slowed markedly from the first half of 2009. Charge-off rates for all major loan categories except CRE reached post-1990 highs in 2009 and 2010 and are expected to remain well above historic averages at least through 2011. Credit losses are expected to remain elevated because residential mortgage foreclosures are still rising from already-record levels, even for prime residential mortgages. The bright side of the credit picture is that the ratio of charge-offs to loans on the books fell in the first half of 2010 for most classes of real estate loans, as well as for consumer and industrial loans and consumer installment loans.

Revenues

For the national banking system as a whole, pre-provision net revenues rose 4 percent in the first half of 2010, compared with the same period a year earlier. The biggest factor in this increase was solid growth in net interest income at the largest banks, which rose 9 percent from the previous year, with the gain in net interest margins more than offsetting a slight fall in earning assets. Falling noninterest expenses at both large and small banks also contributed to revenue growth. At the smaller banks, a modest increase in net interest income from asset growth and a drop in noninterest expense combined to raise pre-provision net revenues. On the minus side, noninterest income for the national banking system fell 9 percent from the previous year, with nearly all the decline attributable to the largest banks, which saw sharply lower servicing fees. Service charges on deposit accounts also fell, as did fee income from investment banking, brokerage, and advisory services.

Funding and Loan Growth

Core deposits rose sharply during the recent financial crisis, as other investments appeared less attractive and savers turned to banks for safety. Large banks have been the main beneficiaries of these deposit flows, which have helped hold down their funding costs. This pattern extended into 2010.

Loan demand has grown more slowly than usual for an economic recovery, in part because the economy as a whole has grown only about half as fast as it did after the last two severe recessions. Moreover, consumers still appear to be deleveraging, perhaps to reduce debt burden and rebuild savings in the face of future uncertainties. If this trend continues, it could mean slow growth in consumer spending (and borrowing), even if overall economic growth returns to normal. Business capital spending has so far been a bright spot in the recovery. But with many firms flush with cash, and even medium-sized firms now able to borrow long-term at low rates in bond markets, banks have seen little resulting growth in business lending.

Outlook

As the economy emerged from downturns in the past, banks often experienced several years of steadily rising net interest income, despite high and persistent loan losses. This upturn allowed banks to rebuild their capital and return to health. After the recession of 1990–1991, for example, interest rates remained low for several years, and net interest margins rose more than enough to offset a decline in earning assets. However, with wholesale funding costs currently at very low levels, there is little scope for further funding-cost reductions. In addition, the growth in core deposits could slow or stop as investor confidence recovers, so funding costs could rise more quickly than asset yields. In such a scenario, funding-cost pressures, along with faltering loan demand, could weigh on net interest income for some time to come. High credit losses would make it difficult for banks to return to pre-crisis levels of profitability.

Section Four

Organization Profile

John Walsh

Acting Comptroller of the Currency

John Walsh became Acting Comptroller of the Currency on August 15, 2010.

The Comptroller of the Currency is the chief executive of the OCC, which supervises nearly 1,500 federally chartered commercial banks and about 50 federal branches and agencies of foreign banks in the United States. These institutions hold more than two-thirds of the assets of the commercial banking system. The Comptroller also is a director of the Federal Deposit Insurance Corporation and NeighborWorks® America.

Mr. Walsh joined the OCC in October 2005 and previously served as Chief of Staff and Public Affairs.

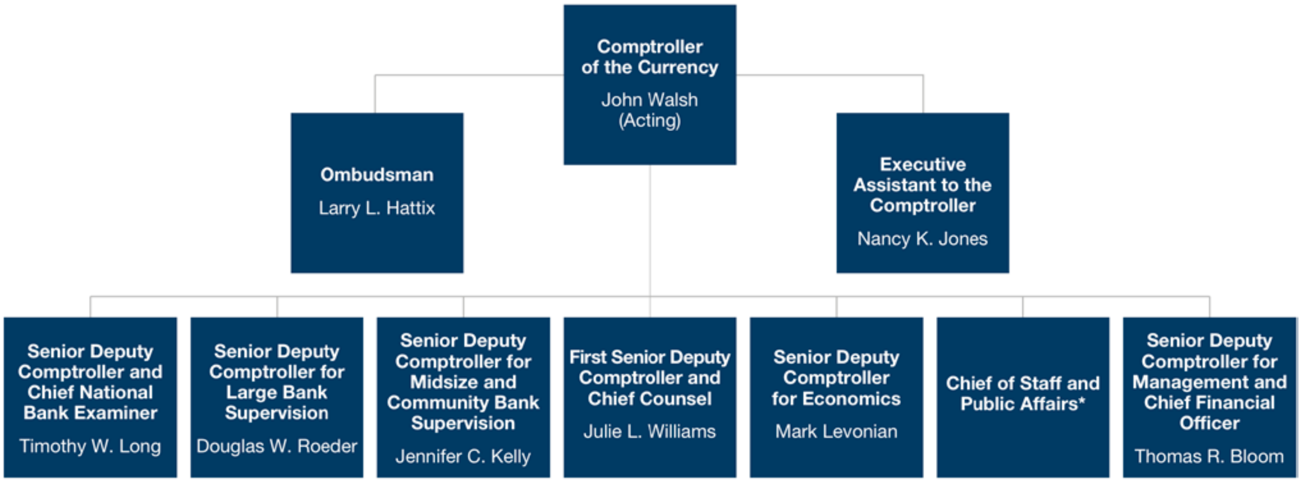
Prior to joining the OCC, Mr. Walsh was the Executive Director of the Group of Thirty, a consultative group that focuses on international economic and monetary affairs. He joined the group in 1992 and became Executive Director in 1995. Mr. Walsh served on the Senate Committee on Banking, Housing, and Urban Affairs from 1986 to 1992 and as an international economist for the U.S. Department of the Treasury from 1984 to 1986. Mr. Walsh also served with the Office of Management and Budget as an international program analyst, with the Mutual Broadcasting System, and in the U.S. Peace Corps in Ghana.

Mr. Walsh holds a master's degree in public policy from the John F. Kennedy School of Government at Harvard University (1978) and graduated magna cum laude from the University of Notre Dame in 1973. He lives in Catonsville, Maryland. He is married with four children.

OCC Executive Committee

Seated, from left to right: Julie L. Williams, First Senior Deputy Comptroller and Chief Counsel; John Walsh, Acting Comptroller of the Currency; Timothy W. Long, Senior Deputy Comptroller and Chief National Bank Examiner. Standing, from left to right: Mark Levonian, Senior Deputy Comptroller for Economics; Thomas R. Bloom, Senior Deputy Comptroller for Management and Chief Financial Officer; Jennifer C. Kelly, Senior Deputy Comptroller for Midsize and Community Bank Supervision; Douglas W. Roeder, Senior Deputy Comptroller for Large Bank Supervision.

Figure 2: OCC Executive Leadership



* On August 15, 2010, upon the expiration of Comptroller John C. Dugan's five-year term, Chief of Staff and Public Affairs John Walsh became Acting Comptroller of the Currency.

Bank Supervision Policy and Chief National Bank Examiner

The Department of Bank Supervision Policy is headed by Senior Deputy Comptroller and Chief National Bank Examiner Timothy W. Long. The department focuses on developing supervisory policies in the areas of bank information technology, capital, commercial credit risk, compliance, financial markets, balance sheet and asset management, operational risk, and credit risk. The department also contains the Office of the Chief Accountant, which oversees accounting policy guidance for national banks.

Large Bank Supervision

The Department of Large Bank Supervision is headed by Senior Deputy Comptroller Douglas W. Roeder. The department oversees the supervision of the largest and most complex national banking companies, as well as foreign-owned U.S. branches and agencies.

Midsize and Community Bank Supervision

Senior Deputy Comptroller Jennifer C. Kelly oversees the Midsize and Community Bank Supervision Department. The department develops and implements supervisory strategies for midsize and community banks, focusing on sound risk identification and management, capital adequacy, and regulatory compliance.

Chief Counsel

First Senior Deputy Comptroller and Chief Counsel Julie L. Williams supervises the OCC's Law, Licensing, and Community Affairs departments. The Law Department enforces compliance with banking requirements, develops opinions on national bank powers and activities, represents the OCC in litigation, and issues regulations. The Licensing Department charters national banks and approves activities and structure changes that support a safe and sound national banking system. The Community Affairs Department supports national banks in the provision of community development financing and retail services to underserved communities and consumers.

Economics

The Economics Department is headed by Senior Deputy Comptroller Mark Levonian. The department provides economic and quantitative analysis of national and global economic trends, supports bank supervision both on- and off-site, contributes to policy development, and conducts original research to support the OCC's mission.

Ombudsman

The Office of the Ombudsman administers the national bank appeals program and the OCC's Customer Assistance Group. The office, headed by Larry L. Hattix, reports directly to the Comptroller of the Currency.

Chief of Staff and Public Affairs

The Public Affairs Department, which reports to the Chief of Staff, supports the agency through its communications with the banking industry and its representatives, the news media, Congress, and the public. It is also responsible for the OCC's internal communications program.

Office of Management

The Office of Management is directed by Thomas R. Bloom, the Senior Deputy Comptroller for Management and Chief Financial Officer. The office administers the OCC's human resources, asset acquisition, travel and staff relocation, physical space, training and development, physical and personnel security, compensation and benefits, and financial management. It also has responsibility for providing the OCC's information technology services and for its diversity, workplace fairness, and equal opportunity function.

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is headquartered in Washington, D.C., and has district offices in Chicago, Dallas, Denver, and New York. The agency also has field and satellite offices in cities and communities throughout the United States and an examining office in London, England. Examiner teams are on-site full time at the largest national banking companies, affording examiners special insight into how these complex institutions operate. The vast majority of OCC examiners, however, supervise more than 1,400 smaller banks, also known as community banks. Keeping national banks and the communities they serve healthy and strong is the OCC's foremost objective.

Section Five

Licensing and Enforcement Measures

Figure 3: Corporate Application Activity, FY 2009 and FY 2010

	FY 2009	FY 2010	FY 2010 decisions			
	Applications Received		Approved	Conditionally approved[a]	Denied	Total[b]
Branches	906	812	818	1	0	819
Capital/sub-debt	303	269	152	5	0	157
Change in bank control	15	8	0	1	0	1
Charters	21	17	5	7	0	12
Conversions[c]	13	4	1	4	0	5
Federal branches	1	2	0	0	0	0
Fiduciary powers	16	13	0	1	0	1
Mergers[d]	57	71	51	13	0	64
Relocations	230	168	162	4	0	166
Reorganizations	81	49	33	12	0	45
Stock appraisals	1	0	0	0	0	0
Subsidiaries[e]	57	58	60	4	1	65
12 CFR 5.53 change in assets	6	4	1	4	0	5
Limited national bank upgrade	3	0	0	0	0	0
Total	**1,710**	**1,475**	**1,283**	**56**	**1**	**1,340**

Source: OCC data.

[a] On April 14, 2000, the Licensing Department issued guidance imposing a special condition for approvals of bank charters that requires prior OCC no-objection to significant deviations or change in the operating plan during the first three years of operation.

[b] Total includes alternative decisions or no-objections.

[c] Conversions to national bank charters.

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

[e] This count does not include 70 After-the-Fact notices received in fiscal year 2009 and 118 After-the-Fact notices received in fiscal year 2010.

Figure 4: Licensing Actions and Timeliness, FY 2009 and FY 2010

		FY 2009			FY 2010		
			Within target			Within target	
	Target time frames in days[a]	Number of decisions	Number	Percent	Number of decisions	Number	Percent
Branches	45/60	916	888	97	819	806	98
Capital/sub-debt	30/45	116	112	97	157	148	94
Change in bank control	NA/60	5	4	80	5	3	60
Charters		17	10	59	12	8	67
Conversions	30/90	5	1	20	5	3	60
Federal branches	NA/120	2	0	0	0	0	0
Fiduciary powers	30/45	4	4	100	1	1	100
Mergers	45/60	46	43	93	64	61	95
Relocations	45/60	235	230	98	166	158	95
Reorganizations	45/60	69	58	84	45	40	89
Stock appraisals	NA/90	0	0	0	0	0	0
Subsidiaries	NA	54	50	93	65	61	94
12 CFR 5.53 change in assets	NA/60	2	2	100	5	5	100
Limited national bank upgrade[b]		0	0	0	0	0	0
Total		**1,471**	**1,402**	**95**	**1,344**	**1,294**	**96**

Source: OCC data.
Note: Most decisions (97 percent in 2009 and 95 percent 2010) were decided in the district offices and Large Bank Licensing under delegated authority. Decisions include approvals, conditional approvals, and denials. NA means "not applicable."

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

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

Figure 5: Change in Bank Control Act, FY 2006–2010 (Notices Processed With Disposition)

Year	Received	Acted on	Not disapproved	Disapproved	Withdrawn
2010	8	5	5	0	0
2009	10	7	7	0	3
2008	5	4	4	0	0
2007	6	6	0	0	0
2006	9	8	4	0	4

Source: OCC data.

Figure 6: OCC Enforcement Actions, FY 2010

Type of enforcement action	Against banks	Against institution-affiliated parties
Cease-and-desist orders	60	6
Temporary cease-and-desist orders	0	0
12 USC 1818 civil money penalties	5	43
12 USC 1818 civil money penalties amount assessed	$ 50,663,450	$ 399,900
Flood insurance civil money penalties	4	0
Flood insurance civil money penalties amount assessed	$ 135,000	$ 0
Restitution orders	2	0
Amount of restitution ordered	$ 5,875,000	$ 0
Formal agreements	118	0
Capital directives	5	NA
Prompt corrective action directives	2	NA
Individual minimum capital ratio letters	126	NA
Safety and soundness orders	0	NA
Memoranda of understanding	37	0
Commitment letters	5	NA
Suspension orders	NA	0
12 USC 1818 removal/prohibition orders	NA	25
12 USC 1829 prohibitions	NA	145
Letters of reprimand	NA	17
Total	**364**	**236**

Source: OCC data.

Figure 7: List of Applications Presenting Community Reinvestment Act Issues Decided, FY 2010

Bank, city, state	Interpretations and actions	Document number
First Niagara Bank, National Association, Buffalo, N.Y. (conversion/merger)	March 2010	Conditional Approval 952
Rabobank, National Association, El Centro, Calif. (merger)	April 2010	CRA Decision No. 146
Morgan Stanley Private Bank, National Association, Jersey City, N.J. (conversion)	June 2010	CRA Decision No. 147
TD Bank, National Association, Wilmington, Del. (merger)	July 2010	Conditional Approval 964

Source: OCC data.

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receives no congressional appropriations. About 97 percent of its operating costs are funded by semiannual assessments levied on national banks, with the balance coming largely from investments in U.S. Treasury securities.

Section Six

Financial Management Discussion and Analysis

Letter From the Chief Financial Officer

I am pleased to present the OCC's financial statements as an integral part of the *Fiscal Year 2010 Annual Report.* For FY 2010, our independent auditors have again rendered an unqualified opinion with no material internal-control weaknesses.

While the OCC has long prided itself on its consistent record of unqualified opinions on its financial statements, it is an outcome we never take for granted. Our comprehensive internal-controls program includes a separate financial statement assurance process mandated by Office of Management and Budget (OMB) Circular A-123, "Management's Responsibility for Internal Control." Annually, the Financial Management Department conducts a detailed risk assessment of the financial statements and applies rigorous tests of controls. As a result of this process, the OCC is once again able to provide unqualified assurance that its internal control over financial reporting is operating effectively and no material weaknesses have been found in its design or operation.

In FY 2011, the OCC will focus on leveraging its strong internal-control environment as the OCC implements the provisions of Dodd–Frank. In the year ahead, the OCC takes on the additional responsibility of chartering and supervising federal thrifts, functions that prior to Dodd–Frank were performed by the OTS. This change presents opportunities and challenges for the OCC, in bank supervision as well as in administrative and financial operations. OCC and OTS officials already have begun in earnest the hard work of integrating our missions and operations. I lead one of several OCC teams already working with our OTS colleagues to ensure an efficient and thoughtful transition. We are addressing the impact of this transition on transferred personnel, the accurate recording of assets and liabilities that are assumed, the effect on systems infrastructure, and office space requirements.

The OCC is a nonappropriated federal agency that continues to be funded largely from assessments on national banks and thrifts. Because the OTS also is a nonappropriated agency funded in a similar manner, the financial controls already in place at the OCC will ensure a smooth financial transition, as the provisions of Dodd–Frank are implemented.

An additional working group consisting of OCC and OTS members has been established to review and determine the anticipated operating needs of the OCC in FY 2012. This work group also must ensure that the current assessment rate structure will provide adequate funding for OCC operations in FY 2012 and beyond. Bank assessments are used to fund the OCC's operating costs, which include personnel, travel, and training. These three items alone represent 75.0 percent of the total annual budget. Budgetary funds remaining unused at year-end are placed into the OCC's financial reserves. These reserves play an integral role in ensuring the OCC's financial health, and they allow the OCC to plan for future needs without continually changing the bank assessment rate structure. In addition, reserves are available to address special one-time needs as a result of the regulatory restructuring required by Dodd–Frank.

In FY 2011, the OCC also will rely on its administrative process-improvement program to integrate the functions formerly performed by the OTS. In FY 2008, the Office of Management undertook a strategic study to document all of its critical administrative processes. By the end of FY 2010, we had reviewed 41 of our 54 critical processes. The results of these reviews will play a critical role in integrating the OTS's administrative functions into the OCC. Also, in FY 2010, the OCC completed 30 business process improvement projects. Most of those projects used the Lean Six Sigma methodology, which resulted in a cost savings or avoidance of $10.1 million. Since the inception of the Lean Six Sigma program in FY 2005, total cost savings or avoidance has totaled $21.0 million annually and 70 OCC staff members have been certified as Master Black Belts, Black Belts, and Green Belts.

The challenges the OCC faces in FY 2011 will not distract us from our responsibility to maintain a strong internal-control environment and sound fiscal policies. We will continue to search for opportunities to eliminate duplication of effort and improve our operational efficiency. We will continue to streamline administrative processes to facilitate the accomplishment of the OCC's core mission. Finally, we will continue to dedicate the finest people and resources available to managing and monitoring the effective and efficient use of OCC funds.

Thomas R. Bloom
Chief Financial Officer

Financial Highlights

Overview

The OCC received an unqualified opinion on its FY 2010 and FY 2009 financial statements. The financial statements consist of Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, and Statements of Budgetary Resources. The OCC presents the financial statements and notes on a comparative basis, providing financial information for FY 2010 and FY 2009. The financial statements were prepared from the OCC's accounting records in conformity with generally accepted accounting principles for U.S. federal agencies (federal GAAP). The financial statements, notes, and auditor's opinion begin on page 51. A summary of the OCC's financial activities in FY 2010 and FY 2009 follows.

Assets

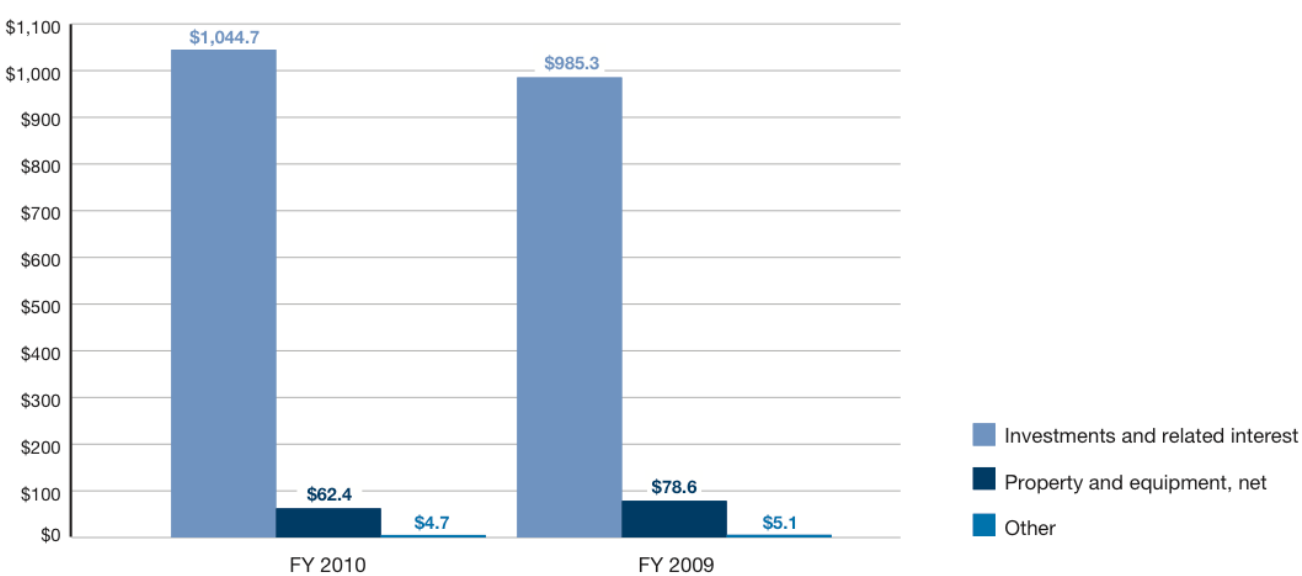
The OCC's assets include both "entity" and "non-entity" assets. The OCC uses entity assets, which belong to the agency, to fund operations. The OCC acquires revenue through the collection of assessments from national banks and from other income, including interest on investments in U.S. Treasury securities. Non-entity assets are assets that the OCC holds on behalf of another federal agency. The OCC's non-entity assets presented as accounts receivable are civil money penalties due the federal government through court-enforced legal actions.

As of September 30, 2010, total assets were $1,111.8 million, an increase of $42.8 million or 4.0 percent from the level on September 30, 2009. This increase is primarily attributable to the growth in the OCC's investment portfolio. Investments and accrued interest increased by $59.4 million, or 6.0 percent, due to an increase in net revenues, which resulted from national bank asset growth during FY 2010. Figure 8 shows the OCC's composition of assets for FY 2010 and FY 2009.

Liabilities

The OCC's liabilities represent the resources due to others or held for future recognition and are composed largely of deferred revenue,

Figure 8: Composition of Assets (in Millions)



Source: OCC financial system data.

accrued liabilities, and accounts payable. Deferred revenue represents the unearned portion of semiannual assessments that have been collected but not earned.

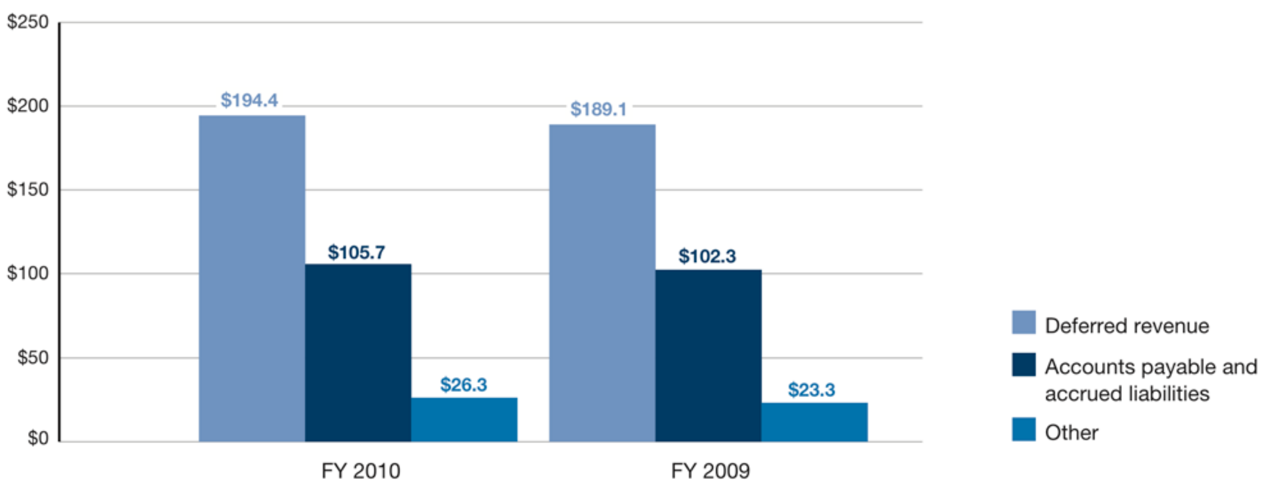
As of September 30, 2010, total liabilities were $326.4 million, a net increase of $11.7 million, or 3.7 percent, over the level on September 30, 2009. The increase of $5.3 million, or 2.8 percent, in deferred revenue was a result of an increase in assessment collections during FY 2010. The increase of $3.3 million, or 3.3 percent, in accounts payable and accrued liabilities was primarily caused by an increase in payroll and employee benefits over last year. Figure 9 illustrates the OCC's composition of liabilities for FY 2010 and FY 2009.

Net Position

The OCC's net position of $785.5 million as of September 30, 2010, and $754.3 million as of September 30, 2009, represent the cumulative net excess of the OCC's revenues over the cost of operations since inception. The majority of this increase of $31.2 million, or 4.1 percent, directly relates to greater-than-expected net revenue from assessments over FY 2009. The net position is presented on both the Balance Sheets and the Statements of Changes in Net Position.

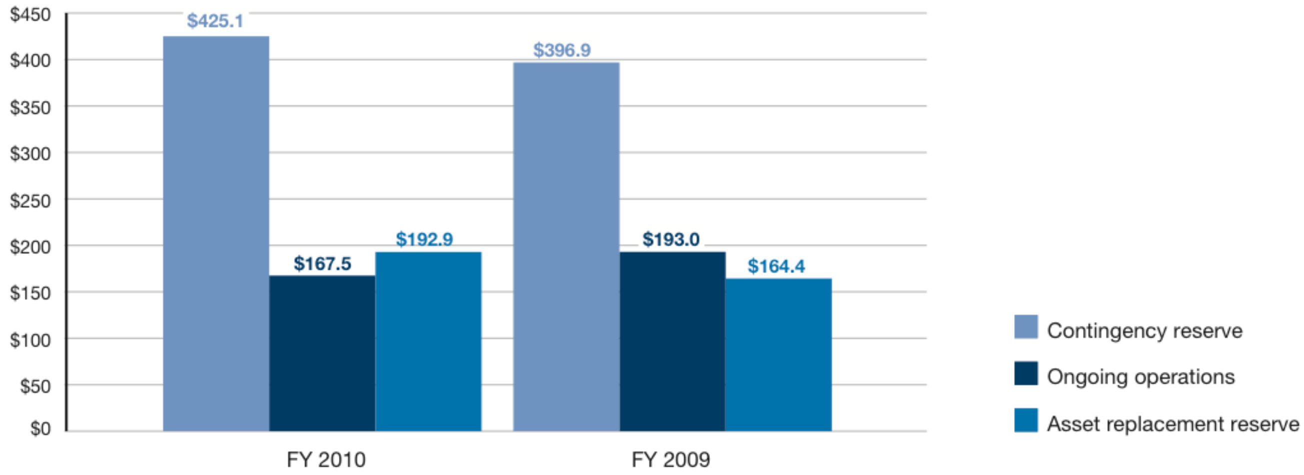
As discussed in the next section, the OCC reserves a significant portion of the net position to supplement resources made available to fund the OCC's annual budget and to cover foreseeable

Figure 9: Composition of Liabilities (in Millions)



Source: OCC financial system data.

Figure 10: Composition of Net Position (in Millions)



Source: OCC financial system data.

but rare events. The OCC also earmarks funds for ongoing operations to cover undelivered orders, the consumption of assets, and capital investments. Figure 10 shows the OCC's composition of net position for FY 2010 and FY 2009.

Reserves

The establishment of financial reserves is integral to the effective stewardship of the OCC's resources, particularly because the agency does not receive congressional appropriations. The contingency reserve reduces the impact on the OCC's operations of revenue shortfalls resulting from foreseeable but rare events that are beyond the OCC's control, or from new requirements and opportunities. Examples of such events might include a major change in the national banking system, a fire or flood, or significant impairment to the OCC's information technology network that interferes with the OCC's ability to accomplish its mission. In addition, reserves are available to address special one-time needs as a result of the regulatory restructuring required by Dodd–Frank. The asset replacement reserve is for the replacement of information technology investments, leasehold improvements, and furniture replacement for future years. The OCC establishes the target level in the asset replacement reserve annually, based on the gross value of existing fixed-asset accounts, a growth-rate factor, and other market cost adjustments.

Revenues and Costs

The OCC does not receive congressional appropriations. The OCC's operations are funded primarily by assessments collected from national banks and interest on investments in U.S. Treasury securities. The Comptroller of the Currency, in accordance with 12 USC 482, establishes budget authority for a given fiscal year. The total budget authority available for use by the OCC in FY 2010 was $791.7 million, which represents an increase of $16.4 million, or 2.1 percent, over the $775.3 million budget in FY 2009.

Total FY 2010 revenue of $786.7 million reflects a $12.0 million, or 1.5 percent, increase over FY 2009 revenues of $774.7 million. The increase is primarily attributable to a rise in bank assessment revenue stemming from bank asset growth in the national banking system. Total assets under OCC supervision rose during FY 2010 to $8.5 trillion, up 2.4 percent, from $8.3 trillion a year earlier. Figure 11 depicts the components of total revenue for FY 2010 and FY 2009. Figure 12 shows the composition of national bank assets by large banks, midsize banks, community banks, and federal branches for FY 2010 and FY 2009.

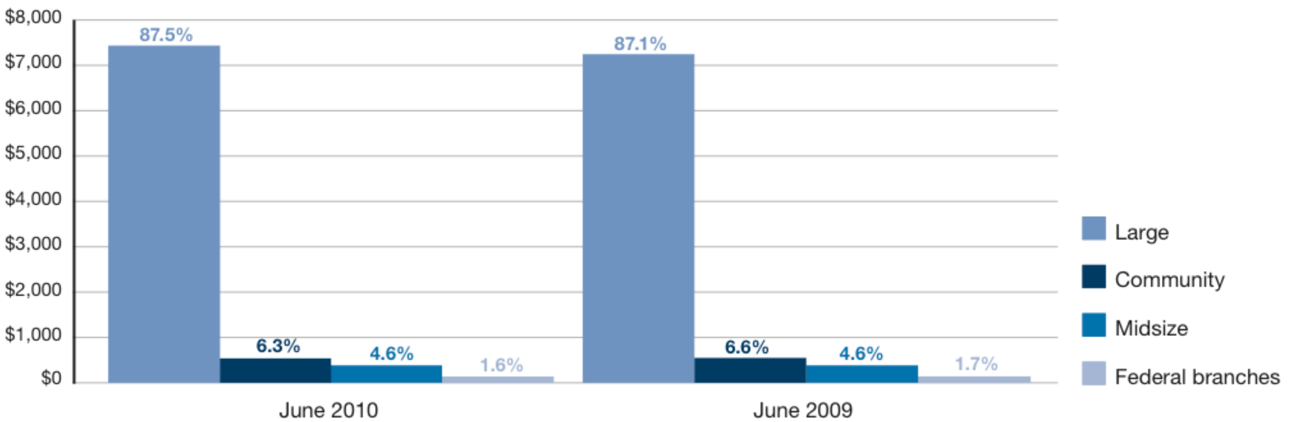
Figure 11: Components of Total Revenue (in Millions)

	FY 2010	FY 2009	Change	Percent
Assessments	$ 764.4	$ 751.2	$ 13.2	1.8%
Investments and other income[a]	22.3	23.5	(1.2)	(0.1)
Total revenue	**$ 786.7**	**$ 774.7**	**$ 12.0**	**1.5%**

Source: OCC financial system data.

[a] Other sources of revenue include bank licensing fees, revenue received from the sale of publications, and other miscellaneous sources.

Figure 12: Composition of National Bank Assets (in Billions)



Source: OCC Financial Institution Data Retrieval System as of June 30 for FY 2010 and FY 2009.

Investments

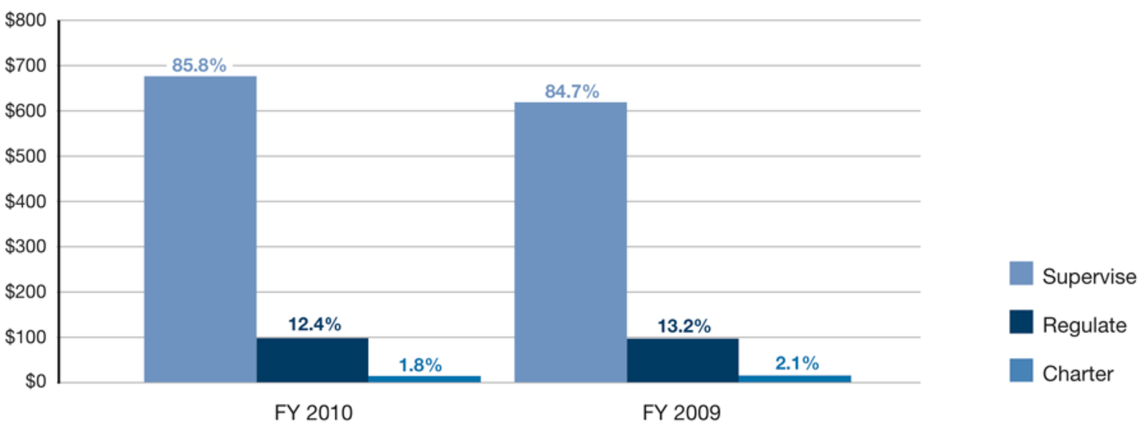
The book value of the OCC's investment portfolio on September 30, 2010, was $1,041.1 million, compared with $981.8 million a year earlier. The market value of the OCC's portfolio in excess of book value rose to $37.9 million from $24.1 million on September 30, 2009. The OCC invests available funds in non-marketable U.S. Treasury securities issued through the Treasury Department's Bureau of Public Debt in accordance with the provisions of 12 USC 481 and 12 USC 192. A portion of the increase in investments of $59.4 million, or 6.0 percent, during the fiscal year reflects the investment of greater-than-expected net revenue from assessments. The portfolio earned an annual yield for FY 2010 of 2.6 percent, compared with 2.9 percent in FY 2009. The OCC calculates annual portfolio yield by dividing the total interest earned during the year by the average ending monthly book value of investments.

Cost of Operations

The OCC's net cost of operations is reported on the Statements of Net Cost and the Statements of Changes in Net Position. The OCC uses an activity-based time reporting system to allocate costs among the agency's programs. Costs are further divided into those resulting from transactions between the OCC and other federal entities (intragovernmental) and those between the OCC and nonfederal entities (with the public). The Statements of Net Cost present the full cost of operating the OCC's three major programs—supervise, regulate, and charter national banks—for the years ended September 30, 2010, and September 30, 2009. Figure 13 illustrates the breakdown of the cost of operations for FY 2010 and FY 2009.

The full cost presented in the Statements of Net Cost includes costs contributed by the Office of Personnel Management (OPM) on behalf of the OCC to cover the cost of the Federal Employees Retirement System and Civil Service Retirement System retirement plans and the Federal Employees' Health Benefits and Federal Employees' Group Life Insurance plans, totaling $32.9 million in FY 2010 and $26.2 million in FY 2009. Beginning in FY 2010, the OCC displays gains and losses from changes in long-term assumptions used to estimate federal employee pension, other retirement benefit (ORB), and other postemployment benefit (OPEB) liabilities as a separate line item on the Statements of Net Cost in accordance with the guidance outlined in Statement of Federal Financial Accounting Standards No. 33, "Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates" (SFFAS 33). FY 2010 total program costs of $786.6 million reflect an increase of $57.3 million, or 7.9 percent, from $729.3 million in FY 2009. The increase was primarily due to an increase in the cost of pay and benefits. Additional contributing factors include increases to contractual services supporting maintenance, noncapitalized information technology investments, rent, and travel costs.

Figure 13: Cost of Operations by Major Program (in Millions)



Source: OCC financial system data.

The full cost is reduced by earned revenues to arrive at net cost. Earned revenues increased by $12.0 million, or 1.6 percent, to $786.7 million in FY 2010, due to an increase in FY 2010 bank assessments that was slightly offset by minor decreases in other revenues. The increases in assessments are a direct result of bank asset growth in the national banking system, particularly the largest banks. Correspondingly, the costs of supervising the national banks have risen because of the increasing size and complexity of national bank assets.

Budgetary Resources

The Statements of Budgetary Resources, designed primarily for appropriated fund activities, present the budgetary resources available to the OCC for the year, the status of these resources at the end of the year, and the net outlay of budgetary resources at the end of the year. The OCC, which is a nonappropriated agency, executed $744.5 million, or 94.0 percent, of the FY 2010 budget of $791.7 million.

Financial Statements

Office of the Comptroller of the Currency
Balance Sheets
As of September 30, 2010 and 2009
(in Thousands)

	2010	2009
Assets		
Intragovernmental:		
Fund balance with Treasury (Note 2)	$ 3,981	$ 4,492
Investments and related interest (Note 3)	1,044,678	985,330
Total intragovernmental	**1,048,659**	**989,822**
Accounts receivable, net (Note 4)	661	556
Property and equipment, net (Note 5)	62,460	78,591
Advances and prepayments	49	29
Total assets	**$ 1,111,829**	**$ 1,068,998**
Liabilities		
Intragovernmental:		
Accounts payable and other accrued liabilities	$ 2,489	$ 1,501
Total intragovernmental	**2,489**	**1,501**
Accounts payable	9,772	10,708
Accrued payroll and benefits	32,463	29,814
Accrued annual leave	37,476	35,497
Other accrued liabilities	23,442	24,832
Deferred revenue	194,443	189,065
Other actuarial liabilities (Note 7)	26,290	23,263
Total liabilities	**326,375**	**314,680**
Net position (Note 8)	**785,454**	**754,318**
Total liabilities and net position	**$ 1,111,829**	**$ 1,068,998**

The accompanying notes are an integral part of these financial statements.

Office of the Comptroller of the Currency
Statements of Net Cost
For the Years Ended September 30, 2010 and 2009

(in Thousands)

	2010	2009
Program costs		
Supervise national banks		
Intragovernmental	$ 94,707	$ 84,804
With the public	580,615	533,080
Subtotal – supervise national banks	**$ 675,322**	**$ 617,884**
Regulate national banks		
Intragovernmental	$ 13,972	$ 13,434
With the public	83,415	82,994
Subtotal – regulate national banks	**$ 97,387**	**$ 96,428**
Charter national banks		
Intragovernmental	$ 2,063	$ 2,171
With the public	11,796	12,828
Subtotal – charter national banks	**$ 13,859**	**$ 14,999**
Total program costs	**$ 786,568**	**$ 729,311**
Less: earned revenues not attributed to programs	(786,717)	(774,702)
Net program costs before actuarial gains/loss from experience and changes in assumptions	**$ (149)**	**$ (45,391)**
(Gain)/loss from actuarial experience (Note 7)	375	(10)
(Gain)/loss from actuarial assumption changes	1,528	3,334
Net cost of operations (Note 9)	**$ 1,754**	**$ (42,067)**

The accompanying notes are an integral part of these financial statements.

Office of the Comptroller of the Currency
Statements of Changes in Net Position

For the Years Ended September 30, 2010 and 2009

(in Thousands)

	2010	2009
Beginning balances	$ 754,318	$ 686,055
Other financing sources:		
Imputed financing (Note 10)	32,890	26,196
Net cost of operations	(1,754)	42,067
Net change	31,136	68,263
Ending balances	**$ 785,454**	**$ 754,318**

The accompanying notes are an integral part of these financial statements.

Office of the Comptroller of the Currency
Statements of Budgetary Resources

For the Years Ended September 30, 2010 and 2009

(in Thousands)

	2010	2009
Budgetary resources		
Unobligated balance, brought forward, October 1	$ 793,371	$ 734,357
Spending authority from offsetting collections		
Earned		
Collected	794,029	775,415
Receivable from federal sources	79	(403)
Subtotal	794,108	775,012
Total budgetary resources	**$ 1,587,479**	**$ 1,509,369**
Status of budgetary resources		
Obligations incurred	$ 740,220	$ 715,998
Unobligated balance available	847,259	793,371
Total status of budgetary resources	**$ 1,587,479**	**$ 1,509,369**
Change in obligated balance		
Obligated balance, net, beginning of period		
Unpaid obligations brought forward, October 1	$ 177,517	$ 165,568
Uncollected customer payments from federal sources, October 1	(3,500)	(3,904)
Total unpaid obligated balance, net	174,017	161,664
Obligations incurred	740,220	715,998
Gross outlays	(733,236)	(704,049)
Change in uncollected customer payments from federal sources	(79)	403
Obligated balance, net, end of period		
Unpaid obligations	184,501	177,517
Uncollected customer payments from federal sources	(3,579)	(3,500)
Obligated balance, net, end of period	180,922	174,017
Net outlays		
Gross outlays	$ 733,236	$ 704,049
Offsetting collections	(794,029)	(775,415)
Net outlays	**$ (60,793)**	**$ (71,366)**

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

Note 1—Significant Accounting Policies

A. Reporting Entity

The OCC was created as a bureau within the U.S. Department of the Treasury by an act of Congress in 1863. The mission of the OCC was to establish and regulate a system of federally chartered national banks. The National Currency Act of 1863, rewritten and reenacted as the National Bank Act of 1864, authorized the OCC to supervise national banks and to regulate the lending and investment activities of federally chartered institutions.

On July 21, 2010, President Obama signed into law the Dodd–Frank Wall Street Reform and Consumer Protection Act, which includes the Enhancing Financial Institution Safety and Soundness Act of 2010 (the "Act"). Under the Act, the transfer of OTS functions to the OCC includes rule-making authority, personnel, property, and funds relating to federal savings associations. The Act abolishes the OTS effective at the end of a one-year period beginning on the date of enactment (the "transfer date").

Upon enactment of the Act, the OTS must pay the OCC for such amounts the OCC determines necessary for expenses associated with the transfer of functions, including the expenses for personnel, property, and administrative services, during the period beginning on the date of the enactment of the Act and ending on the transfer date.

The financial statements report on the OCC's three major programs: supervise, regulate, and charter national banks. These programs support the OCC's overall mission by ensuring the safety and soundness of the national banking system; fostering a flexible legal and regulatory framework that enables the national banking system to provide a full, competitive array of financial services; and promoting fair access to financial services and fair treatment of bank customers.

B. Basis of Accounting and Presentation

The accompanying financial statements present the operations of the OCC. The OCC's financial statements are prepared from the agency's accounting records in conformity with generally accepted accounting principles for United States (U.S.) federal agencies (federal GAAP) as set forth by the Federal Accounting Standards Advisory Board (FASAB). The financial statements are presented in accordance with the form and content guidelines established by the OMB in Circular No. A-136, "Financial Reporting Requirements."

In addition, the OCC applies financial accounting and reporting standards issued by the Financial Accounting Standards Board only as outlined in the GAAP hierarchy contained in Statement of Auditing Standard No. 91, "Federal GAAP Hierarchy." The GAAP hierarchy consists of the sources of accounting principles used in the preparation of federal reporting entities' financial statements that are presented in conformity with GAAP and the framework for selecting those principles.

The OCC's financial statements consist of Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, and Statements of Budgetary Resources. The OCC presents its financial statements on a comparative basis, providing information for FY 2010 and FY 2009.

The financial statements reflect both the accrual and budgetary bases of accounting. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to cash receipt or payment. The budgetary method recognizes the obligation of funds according to legal requirements, which in many cases is made before the occurrence of an accrual-based transaction. Budgetary accounting is essential for compliance with legal constraints and controls over the use of federal funds.

In accordance with federal GAAP, the preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expense during the reporting period. Such estimates and assumptions could change in the future as more information becomes known, which could affect the amounts reported and disclosed herein.

Throughout these financial statements, assets, liabilities, earned revenues, and costs have been classified according to the entity responsible for these transactions. Intragovernmental earned revenues are collections or accruals of revenue from other federal entities, and intragovernmental costs are payments or accruals of expenditures to other federal entities.

C. Revenues and Other Financing Sources

The OCC derives its revenue primarily from assessments and fees paid by national banks and income on investments in non-marketable U.S. Treasury securities. The OCC does not receive congressional appropriations to fund any of the agency's operations. Therefore, the OCC does not have any unexpended appropriations.

By federal statute 12 USC 481, the OCC's funds are maintained in a U.S. government trust revolving fund. The funds remain available to cover the annual costs of the OCC's operations in accordance with policies established by the Comptroller of the Currency.

D. Earmarked Funds

Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the government's general revenues. In accordance with FASAB SFFAS No. 27, "Identifying and Reporting Earmarked Funds," all of the OCC's revenue meets this criterion and constitutes an earmarked fund.

E. Fund Balance With Treasury

The Treasury Department processes the OCC's cash receipts and disbursements. Sufficient funds are maintained in a U.S. government trust revolving fund and are available to pay current liabilities. The OCC's Statements of Budgetary Resources reflect the status of the agency's Fund Balance with Treasury.

F. Investments

It is the OCC's policy to invest available funds in accordance with the provisions of 12 USC 481 and 12 USC 192. The OCC invests available funds in non-marketable U.S. Treasury securities, which may include one-day certificates, bills, notes, and bonds. The OCC does not invest funds with state or national banks. The OCC has the positive intent and ability to hold all U.S. Treasury securities to maturity in accordance with Statement of Financial Accounting Standard (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and does not maintain any available for sale or trading securities. The OCC manages risk by diversifying the agency's portfolio across maturities within established parameters. Diversifying maturities of the individual securities is meant to help manage the inherent risk of interest-rate fluctuations.

G. Accounts Receivable

In accordance with SFFAS No. 1, "Accounting for Selected Assets and Liabilities," the OCC updates the "allowance for loss on accounts receivable" account annually or as needed to reflect the most current estimate of accounts that are likely to be uncollectible. Accounts receivable from the public are reduced by an allowance for loss on doubtful accounts.

H. Property and Equipment

Property and equipment, including internal-use software, are accounted for in accordance with SFFAS No. 6, "Accounting for Property, Plant, and Equipment," and SFFAS No. 10, "Accounting for Internal Use Software."

Property and equipment purchases and additions are stated at cost. The OCC expenses acquisitions that do not meet the capitalization criteria, such as normal repairs and maintenance, when they are received or incurred.

In addition, property and equipment are depreciated or amortized, as applicable, over their estimated useful lives using the straight-line method. They are removed from the OCC's asset accounts in the period of disposal, retirement, or removal from service. Any difference between the book value of the property and equipment and amounts realized is recognized as a gain or loss in the same period that the asset is removed.

I. Liabilities

Accounts Payable

Liabilities represent the amounts owed or accrued under contractual or other arrangements governing the transactions, including operating expenses incurred but not paid. Payments are made in a timely manner in accordance with the Prompt Payment Act. Interest penalties are paid when payments are late. Discounts are taken when cost effective, and when the invoice is paid within the discount period.

Accrued Annual Leave

The OCC accounts for liabilities in accordance with SFFAS No. 5, "Accounting for Liabilities of the Federal Government." In accordance with SFFAS No. 5, annual leave is accrued and funded by the OCC as it is earned, and the accrual is reduced as leave is taken or paid. Each year, the balance in the accrued annual leave account is adjusted to reflect actual leave balances with current pay rates. Sick leave and other types of leave are expensed as incurred.

Deferred Revenue

The OCC's activities are primarily financed by assessments on assets held by national banks and the federal branches of foreign banks. These assessments are due March 31 and September 30 of each year, based on asset balances as reflected on Reports of Condition and Income (call reports) dated December 31 and June 30, respectively. Assessments are paid mid-cycle and are recognized as earned revenue on a straight-line basis over the six months following the call report date. The unearned portions of collected assessments are classified as deferred revenue.

J. Employment Benefits

Retirement Plan

The OCC's employees are eligible to participate in either the Civil Service Retirement System or the Federal Employees Retirement System, depending on when they were hired by the federal government. Pursuant to the enactment of Public Law 99-335, which established the Federal Employees Retirement System, most employees hired after December 31, 1983, are automatically covered by the Federal Employees Retirement System and Social Security. Employees hired before January 1, 1984, are covered by the Civil Service Retirement System, with the exception of those who, during the election period, joined the Federal Employees Retirement System.

Thrift Savings Plan

The OCC's employees are eligible to participate in the federal Thrift Savings Plan. For those employees under the Federal Employees Retirement System, a Thrift Savings Plan account is automatically established, and the OCC contributes a mandatory 1.0 percent of base pay to this account. In addition, the OCC matches employee contributions up to an additional 4.0 percent of pay, for a maximum OCC contribution of 5.0 percent of base pay.

OCC 401(k) Plan

In addition to the federal Thrift Savings Plan, employees can elect to contribute a portion of their base pay in the OCC-sponsored 401(k) plan, subject to Internal Revenue Service regulations that apply to employee contributions in both the federal Thrift Savings Plan and the OCC-sponsored 401(k) plan. Currently, the OCC contributes a fixed 2.0 percent of base pay to the plan for all qualified employees, regardless of whether they contribute to the plan or not. In addition, the OCC will match an additional 1.0 percent employee contribution, for a maximum OCC contribution of 3.0 percent of base pay. The OCC contracts with an independent public accounting firm to perform an audit of the 401(k) plan and related financial statements. The FY 2010 and FY 2009 financial statements for the plan received an unqualified opinion.

Federal Employees' Health Benefits and Federal Employees' Group Life Insurance

Employees and retirees of the OCC are eligible to participate in Federal Employees' Health Benefits and Federal Employees' Group Life Insurance plans that involve a cost sharing of biweekly coverage premiums by employee and employer. The OPM administers both of these employee benefit plans.

Postretirement Life Insurance Benefit Plan

The OCC sponsors a life insurance benefit plan for current and retired employees. This plan is a defined benefit plan for which the benefit is earned over the period from the employee's date of hire to the date on which the employee is assumed to retire. The valuation of the plan is conducted in accordance with generally accepted actuarial principles and practices, including the applicable Actuarial Standards of Practice as issued by the Actuarial Standards Board. Specifically, the OCC uses the actuarial cost method as outlined in SFAS No. 87, "Employers' Accounting for Pensions," to determine costs for its retirement plans. Gains or losses owing to changes in actuarial assumptions are amortized over the service life of the plan. The actuarial assumptions and methods used in calculating actuarial amounts comply with the requirements for postretirement benefits other than pensions as set forth in SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," and for health benefit plans as set forth in American Institute of Certified Public Accountants Statement of Position 92-6.

K. Custodial Revenues and Collections

Non-entity receivables, liabilities, and revenue are recorded as custodial activity and include amounts collected for fines, civil money penalties, and related interest assessments. Revenues are recognized as cash collected that will be transferred to the General Fund of the U.S. Treasury at the end of the fiscal year.

L. Effects of Recent Accounting Pronouncements

In October 2008, the FASAB issued SFFAS No. 33, "Pensions, Other Retirement Benefits, and Other Postemployment Benefits," effective for reporting periods after September 30, 2009. This standard applies to federal entities that report liabilities and expenses for federal employee pensions, other retirement benefits (ORB), and other postemployment benefits (OPEB) in general-purpose financial reports prepared pursuant to FASAB standards. The OCC benefits program includes a Postretirement Life Insurance Benefit Plan, a defined benefit program for which the OCC reports such liabilities. Therefore, the OCC is subject to the requirements for component entities as outlined in the standard. As a result, the OCC implemented SFFAS No. 33 in FY 2010. This standard requires that gains and losses from changes in long-term assumptions used to estimate federal employee pension, ORB, and OPEB liabilities be displayed on the statement of net cost separately from other costs. It also requires disclosure of the components of the expense associated with federal employee pension, ORB, and OPEB liabilities in notes to the financial statements. This statement also provides standards for selecting the discount rate assumption for present value estimates of federal employee pension, ORB, and OPEB liabilities for which there is currently uncertainty in practice. In addition, this statement provides a standard for selecting the valuation date for estimates of federal employee pension, ORB, and OPEB liabilities, which will establish a consistent method for such measurements.

Note 2—Fund Balance With Treasury

The status of fund balance with Treasury (FBWT) represents the budgetary resources that support the FBWT and is a reconciliation between budgetary and proprietary accounts. The OCC's FBWT is designated by Treasury as a trust fund. It consists of unobligated and obligated balances that reflect the budgetary authority remaining for disbursement against current or future obligations. In FY 2010 the OCC combined Cash with FBWT on its Balance Sheets and reclassified its FY 2009 balances to conform to the new presentation.

The unobligated balance represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations and is classified as available for future OCC use without further congressional action. The obligated balance not yet disbursed represents funds that have been obligated for goods that have not been received or services that have not been performed. It also represents goods and services that have been delivered or received but not yet paid for. The nonbudgetary FBWT account represents adjustments to budgetary accounts that do not affect the FBWT. The OCC's balance represents investment accounts that reduce the status of the FBWT. The figure below depicts the OCC's FBWT amounts for FY 2010 and FY 2009.

Fund Balance With Treasury (in Thousands)

	FY 2010	FY 2009
Fund balance:		
Trust funds	$ 3,981	$ 4,492
Status of fund balance with Treasury		
Unobligated balance—available	$ 847,259	$ 793,370
Obligated balance not yet disbursed	180,922	174,017
Non-budgetary fund balance with Treasury	(1,024,200)	(962,895)
Total	**$ 3,981**	**$ 4,492**

Note 3—Investments and Related Interest

The OCC's investments are stated at amortized cost and the related accrued interest. Premiums and discounts are amortized over the term of the investment using the effective yield method. The fair market value of investment securities was $1,079.0 million on September 30, 2010, and $1,006.0 million on September 30, 2009.

The overall portfolio earned an annual yield of 2.6 percent for FY 2010 and 2.9 percent for FY 2009.

The yield-to-maturity on the non-overnight portion of the OCC's investment portfolio ranged from 0.7 percent to 4.5 percent in FY 2010, and from 0.5 percent to 4.6 percent in FY 2009. The figures below illustrate investments and related interest for FY 2010 and FY 2009.

FY 2010 Investments and Related Interest (in Thousands)

	Cost	Amortization method	Amortized (premium) discount	Investments, net	Market value disclosure
Intragovernmental securities:					
Non-marketable market-based	$ 1,048,359	Effective yield	$ (7,260)	$1,041,099	$1,079,001
Accrued interest	3,579		0	3,579	3,579
Total intragovernmental investments	**$ 1,051,938**		**$ (7,260)**	**$1,044,678**	**$1,082,580**

FY 2009 Investments and Related Interest (in Thousands)

	Cost	Amortization method	Amortized (premium) discount	Investments, net	Market value disclosure
Intragovernmental securities:					
Non-marketable market-based	$ 989,294	Effective yield	$ (7,465)	$ 981,829	$ 1,005,963
Accrued interest	3,501		0	3,501	3,501
Total intragovernmental investments	**$ 992,795**		**$ (7,465)**	**$ 985,330**	**$ 1,009,464**

Note 4—Accounts Receivable

As presented in the OCC's Balance Sheets, accounts receivable represent monies due from the public, for services and goods provided, that will be retained by the OCC upon collection. Also included are civil money penalty (CMP) amounts assessed against people or banks for violations of law, regulation, and orders; unsafe or unsound practices; and breaches of fiduciary duty. Since CMPs are not debts due the OCC, the amount outstanding does not enter into the calculation for the allowance for uncollectible accounts. The OCC has recognized $50.7 million and $5.7 million in CMP non-entity revenue as of September 30, 2010 and 2009, respectively. The figures below depict accounts receivable for FY 2010 and FY 2009.

FY 2010 Accounts Receivable (in Thousands)

	Gross	Allowance for uncollectible accounts	Accounts receivable, net
Civil money penalties receivables	$ 643	$ 0	$ 643
Nonfederal receivables	45	(27)	18
Total accounts receivable	**$ 688**	**$ (27)**	**$ 661**

FY 2009 Accounts Receivable (in Thousands)

	Gross	Allowance for uncollectible accounts	Accounts receivable, net
Civil money penalties receivables	$ 537	$ 0	$ 537
Nonfederal receivables	28	(9)	19
Total accounts receivable	**$ 565**	**$ (9)**	**$ 556**

Note 5—Property and Equipment, Net

Property and equipment purchased at a cost greater than or equal to the noted thresholds below with useful lives of three years or more are capitalized at cost and depreciated or amortized, as applicable. Leasehold improvements are amortized on a straight-line basis over the lesser of the terms of the related leases or their estimated useful lives. All other property and equipment are depreciated or amortized, as applicable, on a straight-line basis over their estimated useful lives.

For FY 2010 and 2009, the OCC reported $312.0 thousand and $2.2 million of fully depreciated assets removed from service and recognized a loss of $5.7 million and $45.5 thousand on the disposal of other assets, respectively. The majority of the loss on the disposal of assets recognized in FY 2010 resulted from the retirement from service of certain internally developed software that the OCC determined met the definition of an impaired asset. The figures below summarize property and equipment balances as of September 30, 2010 and 2009.

FY 2010 Property and Equipment, Net (in Thousands)

Class of assets	Capitalization threshold	Useful life	Cost	Accumulated depreciation/ amortization	Net book value
Leasehold improvements	$ 50	5-20	$ 71,974	$ (37,701)	$ 34,273
Equipment	50	3-10	27,180	(21,662)	5,518
Internal use software	500	5	63,496	(51,948)	11,548
Internal use software–development	500	N/A	9,858	0	9,858
Leasehold improvements–development	50	N/A	1,263	0	1,263
Total			**$ 173,771**	**$ (111,311)**	**$ 62,460**

FY 2009 Property and Equipment, Net (in Thousands)

Class of assets	Capitalization threshold	Useful life	Cost	Accumulated depreciation/ amortization	Net book value
Leasehold improvements	$ 50	5-20	$ 57,730	$ (30,089)	$ 27,641
Equipment	50	3-10	26,549	(19,138)	7,411
Internal use software	500	5	65,080	(44,871)	20,209
Internal use software–development	500	N/A	10,978	0	10,978
Leasehold improvements–development	50	N/A	12,352	0	12,352
Total			**$ 172,689**	**$ (94,098)**	**$ 78,591**

Note 6—Leases

The OCC leases equipment and office space for both headquarters operations in Washington, D.C., and district and field operations. The lease agreements expire at various dates. In FY 2010, the OCC entered into four new lease occupancy agreements in various locations throughout the continental United States, as old leases expired. All of the OCC's leases are treated as operating leases. All annual lease costs under the operating leases are included in the Statements of Net Cost. Under existing commitments, the minimum yearly lease payments through FY 2016 and thereafter are shown below.

FY 2010 Future Lease Payments (in Thousands)

Year	Amount
2011	$ 35,528
2012	24,055
2013	19,654
2014	16,757
2015	13,016
2016 and beyond	43,587
Total	**$ 152,597**

FY 2009 Future Lease Payments (in Thousands)

Year	Amount
2010	$ 38,366
2011	33,417
2012	22,003
2013	18,068
2014	15,007
2015 and beyond	51,808
Total	**$ 178,669**

Note 7—Other Actuarial Liabilities

The OCC's other actuarial liabilities are reported on the Balance Sheets and include the components, as shown in the figure below.

Actuarial Liabilities Category (in Thousands)

Component	FY 2010	FY 2009
Federal Employees Compensation Act (FECA)	$ 1,299	$ 1,589
Postretirement life insurance benefits	24,991	21,674
Total actuarial liabilities	**$ 26,290**	**$ 23,263**

Federal Employees Compensation Act

The Federal Employees Compensation Act provides income and medical cost protection to cover federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for OCC employees covered under the Federal Employees' Compensation Act are administered by the U.S. Department of Labor and later billed to the OCC. The FY 2010 and 2009 present value of these estimated outflows is calculated using a discount rate of 3.7 percent in the first year and 4.3 percent in subsequent years, and 4.2 percent in the first year and 4.7 percent in subsequent years, respectively.

Postretirement Life Insurance Benefits

The OCC sponsors a life insurance benefit plan for current and retired employees. This plan is a defined benefit plan. The figure below sets forth the plan's funded status reconciled with the actuarial liability. The actuarial cost method used to determine costs for the retirement plans is the Projected Unit Credit method, a benefit valuation method used to determine the actuarial present value of the benefit obligation and the related service cost. The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 5.0 percent. Gains or losses owing to changes in actuarial assumptions are amortized over the service life of the plan. The OCC recognized a $1.5 million increase in Accumulated Other Comprehensive Income caused by a decrease in the discount rate for FY 2010.

Net periodic postretirement benefit costs for life insurance provisions under the plan include the components as shown on this page. The total benefit expenses are recognized as program costs in the Statements of Net Cost. Any gains or losses from changes in long-term assumptions used to measure liabilities for postretirement life insurance benefits are displayed separately on the Statements of Net Cost, as required.

The figure below presents a reconciliation of the beginning and ending postretirement life insurance liability and provides material components of the related expenses.

Note 8—Net Position

Net Position represents the net result of operations since inception and includes cumulative amounts related to investments in capitalized assets held by the OCC. The OCC sets aside a portion of its net position as contingency and asset replacement

Reconciliation of Beginning and Ending Postretirement Liability and the Related Expense (in Thousands)

Change in actuarial and accrued benefits	FY 2010	FY 2009
Actuarial postretirement liability beginning balance	$ 21,674	$ 17,078
Actuarial expense:		
Normal cost	747	595
Interest on the liability balance	1,198	1,119
Actuarial (gain)/loss:		
From experience	375	(10)
From assumption changes	1,528	3,334
Prior service costs	0	0
Total expense	3,848	5,038
Less amounts paid	(531)	(442)
Actuarial postretirement liability ending balance	**$ 24,991**	**$ 21,674**

reserves for use at the Comptroller's discretion. In addition, funds are set aside to cover the cost of ongoing operations.

The contingency reserve supports the OCC's ability to accomplish its mission in the case of foreseeable but rare events. Foreseeable but rare events are beyond the control of the OCC, such as a major change in the national banking system or, for instance, a fire, flood, or significant impairment of the agency's information technology systems. In addition, reserves are available to address special one-time needs as a result of the regulatory restructuring required by Dodd–Frank.

The asset replacement reserve funds the replacement of information technology investments, leasehold improvements, and furniture replacements for future years. The target level for the replacement reserve is established annually based on the gross value of existing property and equipment plus a growth-rate factor and a margin for market cost adjustments. The figure below reflects changes for FY 2010 and FY 2009.

Net Position Availability (in Thousands)

Component	FY 2010	FY 2009
Contingency reserve	$ 425,048	$ 396,911
Asset replacement reserve	192,900	164,400
Set aside for ongoing operations:		
Undelivered orders	58,906	66,134
Consumption of assets	79,408	97,554
Capital investments	29,192	29,319
Net position	**$ 785,454**	**$ 754,318**

Note 9—Net Cost of Operations

The Net Cost of Operations represents the OCC's operating costs deducted from assessments and fees paid by national banks and investment interest income earned. The operating costs include the gain/loss from actuarial experience and assumption changes per SFFAS No. 33. The revenue earned from reimbursable services is shown as an offset against the full cost of the program to arrive at its net cost. The imputed financing sources for net cost of operations are reported on the Statements of Changes in Net Position and in Note 11, Reconciliation of Net Cost of Operations to Budget.

The following figure illustrates the OCC's operating expense categories for FY 2010 and FY 2009.

Net Cost of Operations by Expense Category (in Thousands)

	FY 2010	FY 2009
Personnel compensation and benefits	$ 508,575	$ 483,484
Contractual services	106,476	93,159
Rent, communication, and utilities	49,985	49,586
Travel and transportation of persons and things	48,701	46,093
Imputed costs	32,890	26,196
Depreciation	25,490	17,930
Other	16,354	16,187
Total	**$ 788,471**	**$ 732,635**

Note 10—Imputed Costs and Financing Sources

In accordance with SFFAS No. 5, "Liabilities of the Federal Government," federal agencies must recognize the portion of employees' pension and other retirement benefits to be paid by the OPM trust funds. These amounts are recorded as imputed costs and imputed financing for other agencies. Annually, the OPM provides federal agencies with cost factors for the computation of current year imputed costs. These cost factors are multiplied by the current year salary or number of employees, as applicable, to provide an estimate of the imputed financing that the OPM trust funds will provide for each agency.

The imputed costs categories for FY 2010 and FY 2009 are listed in the figure below. These imputed costs are included on the Statements of Net Cost. The financing sources absorbed by the OPM are reflected on the Statements of Changes in Net Position and in Note 11, Reconciliation of Net Cost of Operations to Budget.

Imputed Costs Absorbed by OPM (in Thousands)

Component	FY 2010	FY 2009
Retirement	$ 18,509	$ 11,358
Federal Employees' Health Benefits	14,346	14,804
Federal Employees' Group Life Insurance	35	34
Total imputed costs covered by OPM	**$ 32,890**	**$ 26,196**

Note 11—Reconciliation of Net Cost of Operations to Budget

The Reconciliation of Net Cost of Operations to Budget demonstrates the relationship between the OCC's proprietary (net cost of operations) and budgetary accounting (net obligations) information. For FY 2010, the statement on page 67 shows $21.0 million in excess resources available to finance activities, a net decrease of $11.8 million over September 30, 2009. This net decrease resulted from a $19.1 million increase in resources available (spending authority from offsetting collections) netted against the increase of $24.2 million in resources used (obligations incurred) and the $6.7 million increase in imputed financing. The increase in net resources available is primarily due to increased assessment revenue, while the increase in resources used results from various office space and information technology investments as well as salary and employee benefits, as shown on the next page.

Office of the Comptroller of the Currency
Reconciliation of Net Cost of Operations to Budget
For the Years Ended September 30, 2010 and 2009
(in Thousands)

	2010	2009
Resources used to finance activities		
Budgetary resources obligated		
Obligations incurred	$ 740,220	$ 715,998
Less: Spending authority from offsetting collections	(794,109)	(775,011)
Net obligations	(53,889)	(59,013)
Other resources		
Imputed financing sources (Note 10)	32,890	26,196
Total resources used to finance activities	**(20,999)**	**(32,817)**
Resources used to finance items not part of the net cost of operations		
Change in budgetary resources obligated for goods, services, and benefits ordered but not yet provided	(792)	(2,070)
Resources that finance the acquisition of assets	(9,359)	(25,431)
Total resources used to finance items not part of the net cost of operations	(10,151)	(27,501)
Total resources used to finance the net cost of operations	**$ (31,150)**	**$ (60,318)**
Components of the net cost of operations that will not require or generate resources in the current period		
Components requiring or generating resources in future periods		
Change in deferred revenue	5,378	8,781
Increase in exchange revenue receivable from the public	1	3
Total components that will require or generate resources in future periods	5,379	8,784
Components not requiring or generating resources		
Depreciation and amortization	19,822	17,885
Net increase in bond premium	2,035	(8,463)
Other	5,668	45
Total components that will not require or generate resources	27,525	9,467
Total components of net cost of operations that will not require or generate resources in the current period	**32,904**	**18,251**
Net cost of operations	**$ 1,754**	**$ (42,067)**

Note 12—Commitments and Contingencies

The OCC recognizes and discloses contingencies in accordance with SFFAS No. 12, "Recognition of Contingent Liabilities Arising from Litigation." The OCC is party to various administrative proceedings, legal actions, and claims brought against it, including threatened or pending litigation involving labor relations claims, some of which may ultimately result in settlements or decisions against the federal government. Contingencies for litigations involving the OCC, where the risk of loss was reasonably possible, were $1.0 million and $1.3 million as of September 30, 2010, and September 30, 2009, respectively. Since the risk of loss for these litigations was not probable, the OCC did not record any liability.

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Independent Auditor's Report on Financial Statements

Inspector General, Department of the Treasury, and
the Comptroller of the Currency:

We have audited the accompanying balance sheets of the Office of the Comptroller of the Currency (OCC) as of September 30, 2010 and 2009, and the related statements of net cost, changes in net position and budgetary resources (hereinafter referred to as "financial statements") for the years then ended. These financial statements are the responsibility of the management of OCC. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the OCC as of September 30, 2010 and 2009, and its net costs, changes in net position, and budgetary resources for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The information in Section Six, pages 43 through 50, and pages 75 and 76 of OCC's fiscal year 2010 Annual Report is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information, and we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The information included in Sections One, Two, Three, Four and Five of OCC's fiscal year 2010 Annual Report is presented for purposes of additional analysis and is not a required part of the financial statements. We did not audit this information, and we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued reports dated October 29, 2010, on our consideration of the OCC's internal control over financial reporting, and on our tests of its compliance with certain provisions of applicable laws, regulations, and contracts. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audits.

GKA, P.C.

October 29, 2010

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Independent Auditor's Report on Internal Control over Financial Reporting

Inspector General, Department of the Treasury, and
the Comptroller of the Currency:

We have audited the balance sheet and the related statements of net cost, changes in net position, and budgetary resources, hereinafter referred to as "financial statements" of the Office of the Comptroller of the Currency (OCC) as of and for the year ended September 30, 2010, and have issued our report thereon dated October 29, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the applicable provisions of Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

In planning and performing our audit, we considered the OCC's internal control over financial reporting by obtaining an understanding of the design effectiveness of OCC's internal control, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04 and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide an opinion on the effectiveness of OCC's internal control over financial reporting. Consequently, we do not provide an opinion on the effectiveness of OCC's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

We noted certain matters involving internal control and its operation that we reported to management of OCC in a separate letter dated October 29, 2010.

This report is intended solely for the information and use of the Management of the OCC, the Department of the Treasury Office of Inspector General, the Government Accountability Office, OMB, and the U.S. Congress, and is not intended to be, and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

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October 29, 2010

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Independent Auditor's Report on Compliance with Laws and Regulations

The Inspector General, Department of the Treasury, and
the Comptroller of the Currency:

We have audited the balance sheets and the related statements of net cost, changes in net position, and budgetary resources, hereinafter referred to as "financial statements" of the Office of the Comptroller of the Currency (OCC) as of and for the years ended September 30, 2010 and 2009, and have issued our report thereon dated October 29, 2010. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, the applicable provisions of Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

The management of the OCC is responsible for complying with laws and regulations applicable to the OCC. As part of obtaining reasonable assurance about whether the OCC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including certain requirements referred to in Section 803(a) of the *Federal Financial Management Improvement Act (FFMIA) of 1996*. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations and contracts applicable to the OCC. However, our objective was not to provide an opinion on overall compliance with laws, regulations and contracts. Accordingly, we do not express such an opinion.

The results of our tests of compliance with laws, regulations and contracts described in the preceding paragraph, exclusive of FFMIA, disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04.

Under FFMIA, we are required to report whether the OCC's financial management systems substantially comply with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

The results of our tests disclosed no instances in which the OCC's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

This report is intended solely for the information and use of the Management of the OCC, the Department of the Treasury Office of Inspector General, the Government Accountability Office, OMB, and U.S. Congress and is not intended to be, and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

GKA, P.C.

October 29, 2010

Other Accompanying Information

Performance Measures and Results

The OCC's FY 2010 performance measures, workload indicators, customer service standards, and results are presented in Figure 14.

Figure 14: Performance Measures, Workload Indicators, Customer Service Standards, and Results

Strategic goal	Performance measure workload indicator customer service standard	FY 2007	FY 2008	FY 2009	FY 2010 Target	FY 2010 Actual[a]
I. A safe and sound national banking system						
	Percentage of national banks with composite CAMELS rating of 1 or 2[b]	96%	92%	82%	90%	***72%***
	Rehabilitated problem national banks as a percentage of the problem national banks one year ago (CAMELS 3, 4, or 5)[b]	52%	47%	29%	40%	***22%***
	Percentage of national banks that are categorized as well capitalized[b]	99%	99%	86%	95%	***91%***
	Percentage of critically undercapitalized banks on which responsible action is taken within 90 calendar days after they become critically undercapitalized	100%	100%	100%	100%	100%
	Average survey response that the report of examination clearly communicated examination findings, significant issues, and the corrective actions management needed to take[c]	1.32	1.28	1.34	$\leq$ 1.75	1.47
II. Fair access to financial services and fair treatment of bank customers						
	Percentage of national banks with consumer compliance rating of 1 or 2	97%	97%	97%	94%	***96%***
	Percentage of qualified intermediate small banks to which the OCC offers to provide consultation on the Community Reinvestment Act and community development opportunities	100%	100%	100%	100%	100%
	Percentage of consumer complaints closed within 60 calendar days of receipt	18%	12%	8%	80%	3%
	Number of consumer complaints opened/closed during the fiscal year	33,655	41,656	58,810	72,000	80,336
	Number of consumer complaints opened/closed during the fiscal year	26,245	30,986	32,533	70,000	79,660
III. A flexible legal and regulatory framework that enables the national banking system to provide a full, competitive array of financial services						
	Percentage of external legal opinions issued within established time frames	96%	92%	88%	86%	85%
	Number of external legal opinions issued during the fiscal year	81	73	53	60	64
	Percentage of licensing applications and notices filed electronically	38%	46%	51%	40%	44%
	Number of licensing applications and notices filed electronically during the fiscal year	1,261	1,525	1,681	1,200	1,440
	Percentage of licensing applications and notices completed within established time frames	96%	95%	95%	95%	96%
	Number of licensing applications and notices completed during the fiscal year[d]	2,278	1,843	1,471	1,500	1,344
	Average survey rating of the overall licensing services provided by the OCC[e]	1.20	1.22	1.25	$\leq$ 1.5	1.15
IV. An expert, highly motivated, and diverse workforce that makes effective use of OCC resources						
	Total OCC costs relative to every $100,000 in bank assets regulated	$ 8.89	$ 8.39	$ 8.81	$ 9.22	***$ 9.28***

Source: OCC data for all fiscal years.

[a] Fiscal year 2010 performance numbers shown in bold italics are estimates. Some performance data is obtained from quarterly call reports from banks. The September 30, 2010, call reports are not due until 30 or 45 days after the end of the period. Additionally, examinations concluded late in the fiscal year are not finalized for another 30 to 60 days. As a result, complete fiscal year data are not yet available; therefore, estimates have been reported.

[b] These performance measures for FY 2010 are below target primarily because of the difficult economic situation the entire financial industry is facing. The OCC continues to closely monitor the capital levels and performance of all our banks and, when necessary, initiates formal and informal agreements to enhance our level of supervision.

[c] The examination survey is based on a five-point scale, in which 1 indicates complete agreement and 5 indicates complete disagreement.

[d] The number of total applications and notices has declined from the previous fiscal year because the number is based on actual applications received, which also declined.

[e] The licensing survey is based on a five-point scale, in which 1 indicates outstanding and 5 indicates significantly deficient.

Improper Payments Information Act

The Improper Payments Information Act of 2002, as implemented by the Office of Management and Budget, requires federal agencies to review all programs and activities annually and identify those that may be susceptible to significant erroneous payments. The OCC analyzed payments (excluding payroll) made during FY 2010 and identified 26 erroneous payments requiring adjustments totaling $29,163. Erroneous payments are identified and monitored daily to ensure prompt recovery. The underlying causes and contributing factors are identified quickly, and control measures are implemented to prevent additional erroneous payments.

The OCC corrected and recovered all erroneous payments made during the year. Figure 15 summarizes the OCC's erroneous payments for FY 2010 and FY 2009.

Figure 15: Erroneous Payments

	FY 2010	FY 2009
Number of payments	26	30
Dollar value of adjustments	$ 29,163	$ 29,476

Source: OCC data.

Assurance Statement

The Office of the Comptroller of the Currency (OCC) has made a conscientious effort during fiscal year (FY) 2010 to meet the internal control requirements of the Federal Managers' Financial Integrity Act (FMFIA), the Federal Financial Management Improvement Act (FFMIA), and Office of Management and Budget (OMB) Circular A-123. The OCC systems of management control are designed to ensure that:

a. Programs achieve their intended results;
b. Resources are used in accordance with the agency's mission;
c. Programs and resources are protected from waste, fraud, and mismanagement;
d. Laws and regulations are followed;
e. Controls are sufficient to minimize improper or erroneous payments;
f. Performance information is reliable;
g. System security is in substantial compliance with relevant requirements;
h. Continuity of operations planning in critical areas is sufficient to reduce risk to reasonable levels; and
i. Financial management systems are in compliance with federal financial systems standards, *i.e.,* FMFIA Section 4 and FFMIA.

I am providing unqualified assurance that the above listed management control objectives were achieved by the OCC without material weakness during FY 2010. Specifically, this assurance is provided relative to Sections 2 and 4 of the FMFIA.

I am also reporting substantial compliance with the requirements imposed by the FFMIA.

The OCC also conducted its assessment of the effectiveness of internal control over financial reporting, which includes the safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, the OCC can provide unqualified assurance that its internal control over financial reporting was operating effectively as of June 30, 2010, and no material weaknesses were found in the design or operation of the internal control over financial reporting.

In September, the OCC reorganized the Information Technology Services (ITS) business unit by integrating it into the Office of Management. As we progress with implementation of this organizational change, we are taking the opportunity to strengthen internal controls, including quality control and quality assurance activities, throughout ITS programs.

I also provide unqualified assurance that our supervision programs achieved intended results despite the extraordinary challenges that continued to confront the national banking system this year.

The worst post-Depression financial crisis continued to present the OCC with new challenges and opportunities. The measures taken by the Department, the Federal Reserve, the FDIC, the Congress, the OCC, and others ultimately were effective. Confidence returned and banks successfully raised large amounts of private capital in the wake of the stress test, and repaying government capital investment is substantially underway. In short, while the financial system continues to face significant challenges, banks have stabilized, confidence has improved markedly, and institutions are more strongly positioned to help fund economic recovery.

During FY 2010, conditions in large national banks stabilized and remained stable compared to the year before. With the major build in reserves for loan and lease losses substantially achieved, large institutions have returned to profitability.

Although problems continue among the midsize and community bank population, the rate of increase in the number of seriously troubled banks has slowed. We continue to closely monitor those banks with deteriorating trends and initiate informal and formal enforcement actions to pursue rehabilitation or resolution at the lowest possible cost to the Deposit Insurance Fund. The Special Supervision Division meets monthly with the other federal banking agencies to consider and coordinate supervisory responses to problem banks. During FY 2010 we increased division staffing to keep pace with the problem bank population.

FY 2010 brought us the design, consideration, and enactment of the most sweeping financial reform legislation in 75 years, and the OCC vigorously participated in this process. The resulting legislation includes important reforms to the system, including systemic risk regulation and resolution, revised mortgage standards, and new derivatives regulation.

One particularly important part of the new law expands the OCC's role as a dedicated prudential supervisor of federally chartered institutions, by transferring to the OCC the functions of the Office of Thrift Supervision (OTS) with respect to federally chartered savings associations following the abolishment of the OTS.

The OCC looks forward to undertaking our new responsibilities under the Dodd–Frank Wall Street Reform and Consumer Protection Act in FY 2011. Work is already proceeding with the process of transitioning transferred functions and staff from the OTS to the OCC within the timeframe specified in the Act. The OCC also is participating in the process for establishing the new Bureau of Consumer Financial Protection. The OCC will also be actively involved in the process of the establishment of the Financial Stability Oversight Council. Lastly, the OCC has already begun the rule writing process and responding to other actions required by the Act.

Analytical Basis of Assurance Statement

The OCC evaluated its management controls in accordance with the FY 2010 Secretary's Assurance Statement Guidance of June 30, 2010, and considered the following guidance:

- OMB Circular A-123, Management's Responsibility for Internal Control;
- OMB Circular A-127, Financial Management Systems;
- OMB Circular A-130, Management of Federal Information Resources; and,
- Treasury Directive 40-04, Treasury Internal (Management) Control Program.

Information considered in our control assessment included the following:

- FMFIA certifications submitted by each Executive Committee member;
- FFMIA certification submitted by our Chief Financial Officer;
- OCC's Strategic Risk Management Plan;
- Results of internal control testing under OMB Circular A-123, Appendix A;
- Executive Committee descriptions of business unit quality management programs;
- Results of internal reviews, including quality management program assessments by the Enterprise Governance unit;
- Results of control self-assessments completed by OCC managers in FY 2010;
- Audit reports and evaluations issued by the Government Accountability Office (GAO) and the Office of the Inspector General;
- Completed Improper Payments Information Act risk assessment materials submitted to the Department in June 2010;
- Completed GAO Core Financial System Requirements Checklist;
- FFMIA Risk Model and Financial Management System Self-Assessment Checklists submitted to the Department in July 2010;
- Unqualified and timely audit opinion on FY 2009 financial statements; and,
- CPAs Gardiner, Kamya and Associates' status report of October 15, 2010, on the FY 2010 financial statement audit.

John Walsh

John Walsh
Acting Comptroller
of the Currency
November 3, 2010

Acronyms

AML: anti-money laundering

BSA: Bank Secrecy Act

CAMELS (the components of the Uniform Financial Institutions Rating System):

C capital
A asset quality
M management
E earnings
L liquidity
S sensitivity to market risk

CFR: Code of Federal Regulations

CMP: civil money penalty

CPA: certified public accountant

CRE: commercial real estate

CRA: Community Reinvestment Act

FAS: Financial Accounting Standards

FASAB: Federal Accounting Standards Advisory Board

FASB: Financial Accounting Standards Board

FBWT: Fund balance with Treasury

FECA: Federal Employees Compensation Act

FDIC: Federal Deposit Insurance Corporation

FFMIA: Federal Financial Management Improvement Act

FMFIA: Federal Managers Financial Integrity Act

FSB: Financial Stability Board

FSF: Financial Stability Forum

FSOC: Financial Stability Oversight Council

FY: fiscal year

GAAP: generally accepted accounting principles

GAO: Government Accountability Office

HAMP: Home Affordable Modification Program

ITS: Information Technology Services

OCC: Office of the Comptroller of the Currency

OMB: Office of Management and Budget

OPEB: other postemployment benefit

OPM: Office of Personnel Management

ORB: other retirement benefit

OTS: Office of Thrift Supervision

RCC: remotely created checks

SBA: Small Business Administration

SCAP: Supervisory Capital Assessment Program

SFAS: Statement of Financial Accounting Standards

SFFAS: Statement of Federal Financial Accounting Standards

SSG: Senior Supervisors Group

TARP: Troubled Asset Relief Program

USC: U.S. Code

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THE OCC'S STRATEGIC GOALS

A safe and sound national banking system.

Fair access to financial services and fair treatment of bank customers.

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

An expert, highly motivated, and diverse workforce that makes effective use of OCC resources.

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