

A bald eagle with its wings spread wide is flying across the top half of the cover. Below it, several classical columns with Corinthian capitals are visible, some in the foreground and others faded in the background. The entire scene is set against a solid blue background.

Office of Thrift Supervision

AnnualReport

Fiscal Year

2008

Supervising Through the Economic Crisis

Office of Thrift Supervision Contact Information

Headquarters mail: 1700 G Street, NW
Washington, DC 20552

Headquarters phone: 202-906-6000

General inquiries: ContactOTS@ots.treas.gov

Public Reading Room: 202-906-5922

News media inquiries: 202-906-6677

Congressional inquiries: 202-906-6288

Consumer inquiries or
complaints: 800-842-6929
800-877-8339 (TTY Users)

Ombudsman: 972-277-9610

For contact information for OTS regional offices, please refer to the regional sections in this report.

Office of Thrift Supervision Annual Report



The OTS Supervising Through the Economic Crisis

FY 2008 has been a year of historic change and challenge for the financial services industry, the U.S. economy and financial markets around the world.

The theme for this year's Annual Report, "Supervising Through the Economic Crisis," reflects the scope of that challenge, as well as its impact on the thrift industry and the Office of Thrift Supervision.

The theme carries through this report, from the reflections and insights of OTS Director John Reich and Senior Deputy Director Scott Polakoff, to the views from the field in the five OTS Regions and the high points of the year from Supervision and other OTS Operations.

The report tells the story of a federal financial services regulator supervising savings associations and their holding companies during trying times to meet America's financial services needs ■

On the Inside

- 1 The OTS Supervising Through the Economic Crisis
Year of change and challenge
Introduction
Message from the Director
In Focus
Year in Review
OTS Profile and History
- 10 OTS Regions
Regional impacts of economic crisis
Northeast Region
Southeast Region
Central Region
Midwest Region
West Region
- 23 OTS Operations
Highlights and accomplishments
Supervision
Consumers and Communities
Legal Affairs
Employees
Public Affairs
Information Technology
Financial Management

Message from the Director

John M. Reich, Director, Office of Thrift Supervision



During the decades I have spent as a community banker, U.S. Senate staff member and federal financial regulator, I have never experienced a year like fiscal 2008.

The housing downturn, freeze-up in credit markets and general economic calamity that have gripped this nation and much of the rest of the world have been described as a tsunami, a meltdown and a crisis. However you describe these events, it is clear they have combined to constitute the most formidable challenge for the financial services industry I have ever witnessed.

The crisis has centered on housing, so it has had a disproportionate impact on the segment of the industry the OTS regulates — a sector that by law focuses on home mortgages and other

retail consumer lending activities. This impact has been severe enough to topple Washington Mutual, the largest OTS-regulated thrift, and IndyMac Bank. Both of these institutions were headquartered on the West Coast and much of their operations were in California, so their demise sent a shock wave through an already reeling regional economy.

Since the inception of the OTS in 1989, the story of the agency has been one of fortitude and resilience. Born in the aftermath of the S&L crisis of the 1980s, the OTS has defied periodic predictions of its demise and persevered in its mission of ensuring the safety and soundness of an industry that helps to keep alive the American dream of homeownership.

I think the federal government has a clear responsibility to define the boundaries of the field within which all players in the home mortgage arena must compete.

This mission is perhaps more important today than at any other time in agency history. The current crisis demonstrates in graphics terms how housing is woven into the economic fabric of the country and the rest of the world. In the months and years ahead, this nation must continue to find ways to foster housing and keep it vibrant.

The next Presidential Administration and Congress will surely make an in-depth examination of the regulatory framework for insured depository institutions, securities firms and perhaps insurance companies. As I have emphasized in remarks during public appearances throughout the year, there are gaps in our regulatory coverage that must be closed. If we don't close them, unregulated segments of the market will continue to generate pressure that pushes everyone toward the bottom.

Although I have always been a voice against unneeded regulatory burden, I think the federal government has a

clear responsibility to define the boundaries of the field within which all players in the home mortgage arena must compete and to banish any player who refuses to remain within those boundaries.

As policymakers in the Executive branch and on Capitol Hill write the pages of a new regulatory rulebook, it is essential that they reserve a chapter for ensuring that housing finance remains affordable and available for all creditworthy Americans in good times and, most importantly, in bad times when they need it most.

A strong America stands on a foundation of strong families occupying their own homes. I am immensely proud of all of the people in our agency and in our industry who have worked so hard to keep that foundation solid ■

John M. Reich
Washington, D.C.



In Focus: Supervising Through the Economic Crisis

FY 2008 was a tumultuous and historic year that had a disproportionate impact on the thrift industry, exposed gaps in government regulation of the financial services industry and defined the topics of debate for the proposed restructuring of the federal financial regulators in FY 2009.

The result of that debate will determine the future of the OTS as the agency enters its 20th year.

For the OTS, which oversees an industry that by law concentrates on home mortgages and other retail lending activities, the pivotal question will be whether the nation continues to value a federal banking charter dedicated to consumer and community lending. Once that public policy question is answered, the path ahead will become clear.

One fact remains undisputable: Homeownership is critical to the American economy and society.

Recent events have demonstrated that not every aspiring buyer can afford to own a home. There is a limit to sustainable homeownership and attempts to push beyond that limit can undermine the confidence essential for investors to provide sources of mortgage financing.

However, homeownership continues to be a binding force for strong communities across the nation. A high level of homeownership typically equates to lower crime, higher property values and actively involved neighbors.

Despite the economic downturn, OTS-regulated institutions continued in their role as consumer and community lenders to provide credit to keep alive the American dream of homeownership. This fact speaks volumes about the essential role of the OTS in supporting American families in their quest to own homes — in good times and bad. When times are tough, OTS-regulated institutions cannot abandon their mission and try to pursue more profitable lines of business that would put a majority of their assets outside home mortgages and other retail lending activities.

The OTS and the thrift industry are there for the American homeowner. Those are powerful allies that citizens across this nation — and the very essence of the nation itself — can't afford to lose.

While housing finance lies at the core of the thrift industry, it is also at the eye of the current economic storm. During the savings-and-loan crisis of the 1980s and early 1990s, about two-thirds of the troubled assets of thrift institutions were in commercial real estate loans. During the current crisis, more than 80 percent of thrift institutions' troubled assets are in single-family mortgages.

Trouble began to surface last year when the overheated housing market cooled, interest rates on adjustable-rate mortgages reset and homeowners who were straining to afford their mortgage payments were suddenly unable to refinance. An increasing number of borrowers found themselves "upside down" in their mortgages, owing more on their homes than the homes were worth.

When investors lost confidence in investments tied to home mortgages in the summer of 2007, a defining moment occurred — the credit markets froze. That event set in motion powerful forces that took the financial services industry and the global economy by storm, driving to failure two of the nation's largest thrifts, including home lending giant Washington Mutual.

In time, the damage spread to the national and global economies. Recovery is expected to stretch through 2009 and perhaps beyond. Thrifts, like other financial services institutions, will continue to face enormous pressures. Some will not survive.

Looking ahead to reforms needed in the future, it is clear that a uniform

set of rules must apply to the underwriting of all mortgage loans, not just the mortgages originated by federally regulated depository institutions. Allowing loosely regulated mortgage brokers to play by a less restrictive set of rules had a corrosive effect on the entire market and exerted competitive pressure for the weak underwriting that helped propel the crisis.

Secondly, borrowers must have a clear understanding of the terms of their mortgages and investors must have a clear view of the risks inherent in mortgage related investments.

As consolidation in the financial services industry in recent years has reduced the number of financial institutions and the largest banks have grown to become "mega-banks," a rift has grown between large, complex commercial enterprises and the many small or narrowly focused community banks across the nation's heartland that provide traditional banking services to individuals and small businesses.

Two very different types of banking businesses have evolved — one enormous in complexity, focused primarily on commercial lending, the other much simpler in operation, focused on consumer and community retail lending.

As Congress and the Administration move in FY 2009 toward the financial services regulatory framework of the future, they should ponder the wisdom of a two-pronged structure, one for each of these very different business models ■

Year in Review

OTS employees, the resilient core of this agency, once again rose to the challenge this year.

As a worldwide economic storm gathered from the massive downturn in housing finance — the main business of the nation's thrift industry throughout its history — the OTS workforce collectively strived to minimize the damage and safeguard the industry's ability to continue to serve America's financial services needs.

The effort has been valiant and I am exceptionally proud of every OTS employee who is responsible.

By the nature of our work, the failures during the year of three thrift institutions — including our largest, Washington Mutual — are well documented, but the successful results of working tirelessly to save other imperiled institutions remain out of the public eye. Those success stories are largely known and appreciated only by the thrift institutions in question and among the employees themselves.

For our examiners and other employees, this knowledge constitutes a bond that makes the OTS workforce stronger. That continued source of strength will be needed as we move into FY 2009 and confront the many challenges that lie before us.

The U.S. economy and the thrift industry will not recover overnight. It will take time to work through this cycle and that will mean more long hours and sacrifices ahead for OTS employees and their families.

The coming year will also spell continued uncertainty as a new Congress and a new Administration consider restructuring the nation's financial regulatory framework. Predictions about the consolidation of the federal banking agencies have surfaced for many years. It is a testament to the quality of our workforce that employees have been able to look past such distractions and excel.

Under Director Reich, the OTS workforce has flourished, increasing by almost 19 percent to 1,069 employees since FY 2005. The OTS has also enhanced and consolidated its consumer protection division.

Next year, we will continue hiring entry-level examiners in all OTS regions, but the loss of Washington Mutual and other West Coast thrifts will require a realignment of examiner resources. In some



Scott M. Polakoff
Senior Deputy Director and COO

cases the changes will mean more travel and, in others, provide opportunities for voluntary relocations. Our West Region, which in the past needed additional resources from other regions, will become a resource for other regions.

In FY 2009, we will ask our employees to step up to the plate. I have no doubt that, once again, they will rise to the challenge ■

Scott M. Polakoff
Senior Deputy Director and COO

Agency Profile

The OTS is a federal bank regulator that supervises savings associations dedicated to providing home mortgages and other retail consumer lending to communities across America.

The OTS provides a consolidated supervisory approach, regulating not only savings associations, or thrifts, but also the holding companies that own them.

The OTS, an office of the Department of the Treasury, oversees 818 thrift institutions with assets of \$1.18 trillion and 469 thrift holding companies with U.S. domiciled assets of about \$8.1 trillion.

John M. Reich became the Director of the OTS in August 2005 after being appointed by the President and confirmed by the Senate. Reich is a member of the Board of Directors of the Federal Deposit Insurance Corporation (FDIC) and the Federal Financial Institutions Examination Council (FFIEC). He also serves



OTS Director John M. Reich (second row, third from right) with the OTS senior management team. First row, left to right: Frederick R. Casteel, Ombudsman; Lori J. Quigley, Managing Director for Supervision; Tom Day, Managing Director for Risk Management; Second row, left to right: John E. Bowman, Deputy Director and Chief Counsel; Robert W. Russell, Counsel to the Director; C.K. Lee, Regional Director, OTS Midwest Region; Scott M. Polakoff, Senior Deputy Director and Chief Operating Officer; Director Reich; Montrice G. Yakimov, Managing Director for Compliance and Consumer Protection; Timothy T. Ward, Deputy Director for Examinations, Supervision and Consumer Protection; Third row, left to right: Thomas A. Barnes, Regional Director, OTS Central Region; Michael E. Finn, Regional Director, OTS Northeast Region; Avelino L. Rodriguez, Principal Director, Human Resources Programs and Services; Grovetta Gardineer, Managing Director for Corporate and International Activities; Wayne Leiss, Chief Information Officer and Chief Financial Officer; Matthew P. Amato, Principal Director, Human Resources Administration and Human Capital; Darrel W. Dochow, Regional Director, OTS West Region; Barbara L. Shycoff, Managing Director of External Affairs. (Not pictured are: John E. Ryan, Regional Director, OTS Southeast Region; Sharon L. Stark, Senior Economic and Policy Advisor.)

as a director of NeighborWorks America, a congressionally chartered non-profit organization that promotes housing for low- and moderate-income Americans.

The OTS has a nationwide presence, deploying more than 1,000 examiners and other employees at its headquarters in Washington, D.C., five regional offices (Jersey City, Atlanta, Chicago, Dallas and San Francisco) and field offices. Three quarters of the agency's staff works in the regions.

The OTS tailors its supervisory oversight to the risk profile of each thrift institution, conducting an onsite examination every 12- to-18 months to assess safety and soundness, and compliance with consumer protection laws and regulations. Examiners also monitor thrifts through off-site analysis of regularly submitted financial data and routine contact with thrift managers.

The OTS receives no Congressional appropriations, funding its operating budget through periodic assessments to the thrift industry ■



Historical

Town leaders of Frankford, Pa., establish nation's first savings association, the Oxford Provident Building Association. First mortgage made in April of that year to Comly Rich, a local lamplighter.

More than 5,000 savings associations established.

More than 12,000 savings institutions spring up, called savings and loans, thrift and loans, building and loans, thrifts, savings banks, building associations, thrift associations and savings associations.

Many savings associations fail during Great Depression. Federal government responds by establishing Federal Home Loan Bank System, Federal Home Loan Banks and Federal Home Loan Bank Board, predecessor of the OTS.

S&L industry grows again after World War II.

1831

1890s

1920s

1930s

1940s



Timeline

<p>S&Ls originate more than two-thirds of nation's home mortgages.</p>	<p>Interest rates rise and industry competition sharpens.</p>	<p>S&L crisis hits as rising interest rates and risky lending leads to hundreds of S&L failures.</p>	<p>Congress adopts law to create the OTS, restructure the banking business and move deposit insurance for savings associations to the FDIC.</p>	<p>Thrift industry assets reach all-time high, but housing market slows and delinquencies begin to increase.</p>	<p>Credit markets seize up, home prices continue to decline and thrift industry suffers negative earnings.</p>
<p>1960s</p>	<p>1970s</p>	<p>1980s and early 1990s</p>	<p>1989</p>	<p>2006</p>	<p>2007</p>

OTS Regions



Regional Overview

The Office of Thrift Supervision has a nationwide presence with five regional offices in Jersey City, Atlanta, Chicago, Dallas and San Francisco, as well as field offices within each region.

The regions have ongoing contact with each OTS-regulated thrift and thrift holding company. OTS regional leaders and examiners represent the front lines of the agency in monitoring the thrift industry, fostering supervisory relationships and maintaining open communications.

The OTS examiners who conduct regular exams of each institution report to the regions. In all, about three-quarters of the agency's workforce reports to the regional offices.

Each region has felt the impact of the economic crisis in a different way — from the effect along the East Coast on Wall Street's investment banks and Florida's housing market to the impact on the West Coast on large home mortgage lenders, and from thrifts in the manufacturing states around the Great Lakes to community banks in rural areas across the Great Plains.

The sections that follow contain brief profiles of the regions, list key contacts in the regions and describe how each region has been *Supervising Through the Economic Crisis* ■



Northeast Region



Southeast Region

The OTS began an initiative in 2005 under Director Reich to build the agency's workforce by hiring new employees, including significant numbers of entry-level examiners, as a sizable segment of the existing OTS workforce moved toward retirement. These photos show the OTS "class of 2008."



Central Region

Photo includes Central Region Director Thomas Barnes (center) and two experienced examiners (right) responsible for new examiner training.



Midwest Region



West Region

expectations to managers and board members of thrifts and thrift holding companies. The seminars covered financial management, capital markets, controlling information technology risk, compliance management and director responsibilities.

The region's Community Affairs Liaison concentrates on addressing the needs of community organizations and OTS-regulated institutions related to community development, affordable housing and credit. The region hosted and co-hosted foreclosure prevention conferences to explore possible solutions to this growing problem. The liaison also participated in FY 2008 in conferences and forums on the housing crisis and compliance issues. In addition, the liaison works to promote and preserve minority-owned institutions and serves as the regional contact with institutions with unsatisfactory Community Reinvestment Act ratings.

The Northeast Region strives to be accessible and responsive to the needs of the industry. The regional staff will continue to be vigilant in its efforts to supervise financial institutions. The region expects to accomplish this goal by strengthening its already solid supervisory relationships with the industry, continuing to communicate as much as possible with directors and institution managers, and working closely with management teams to identify and manage risks ■



Southeast Region

1475 Peachtree
Street, N.E.
Atlanta, GA 30309

Mail:
P.O. Box 105217
Atlanta, GA
30348-5217

404-888-0771
404-888-5634 - FAX

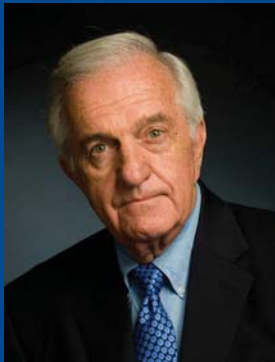
Applications:
Kathryn Haney
404-888-8466
404-888-8544 - FAX

Number of thrifts:
195

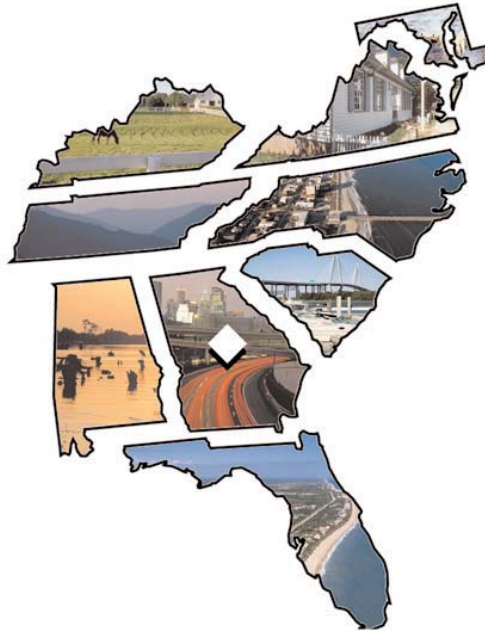
Total thrift assets:
\$183.7 billion

Number of employees:
151

**Number of new
employees in
FY 2008: 11**



John E. Ryan
Regional Director



After enjoying a decade of rapid expansion and favorable economic conditions, thrift institutions in the Southeast Region were challenged in FY 2008 by the slowing growth and disruption in the financial markets that affected the broader national economy.

Although conditions varied markedly within the states composing the Southeast Region, the entire region experienced a degree of contraction in housing, ranging from moderate to severe. This trend hurt loan performance and resulted in significant declines in profitability throughout the region.

The pronounced slowdown in housing activity hit particularly hard in markets that previously benefited from strong home price appreciation and housing growth, such as in Florida, other coastal regions and rapidly developing metropolitan areas. Unprecedented instability in the financial markets

compounded these challenges, putting further stress on the region's institutions. Other events, such as the drought affecting many agricultural areas in the Southeast, contributed to the difficulties.

Fortunately, the OTS Southeast Region entered this difficult period with the resources and experience necessary to manage these risks. The OTS staff in the Southeast Region is a seasoned group of professionals with a depth of experience that brings an enlightened and mature perspective on problems confronting the industry. OTS regional leaders have always emphasized the need for regular and effective communication with industry managers. The region worked closely with the industry during the year to identify troublesome trends and to collaborate to develop effective responses.

Experience counts. The majority of the regional staff has worked through previous economic cycles and downturns in real estate markets. The staff includes 26 employees with more than 30 years each of federal service, including the Regional Director, John Ryan, with more than 45 years of experience in supervising financial institutions.

While the wealth of experience has brought value to the examination process, the region has also strengthened its resources by adding new examiners. In the past three years, the region has hired a large number of new examiners, including 41 in 2006 and 2007. These entry-level examiners have not only provided valuable support to the region's cadre of more experienced examiners, but have also prepared the examination staff for the challenges ahead. The experience that new examiners gain during this current period of stress in the industry equips them well for the demands of the future.

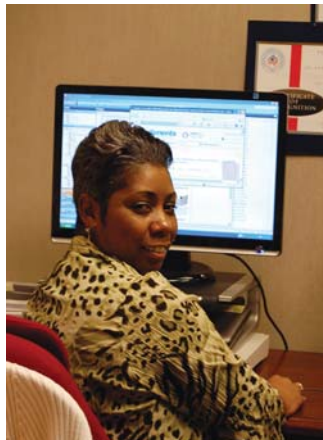
Thrift institutions in the Southeast Region specialize in nearly all aspects of housing finance, from acquisition-and-development loans to multifamily housing loans, single family constructions loans, first mortgage loans, home equity loans and home improvement loans. The industry's focus on providing home financing has been a vital contributor to growth and stability in the housing markets of the region. However, this emphasis has also resulted in a disproportionate impact on OTS-regulated thrifts from the declines in residential real estate values and loan performance during fiscal 2008, particularly in loan portfolios related to land development and construction in previously high growth areas.

In response to the current strain on the industry, the Southeast Region has expanded the scope of risk-focused examinations, shortened timeframes between examinations in many cases and conducted more frequent targeted examinations and field visits. Despite the challenges facing the industry, the vast majority of institutions in the region remain fundamentally sound and well-capitalized, reflecting prudent diversification and lending strategies, sound capital planning and effective risk management practices.

In addition to examining and supervising institutions and holding companies, the Southeast Region continues to sponsor a variety of outreach events to inform the industry and foster open lines of communication. In FY 2008, the region hosted annual Financial Managers seminars in Atlanta and Baltimore, as well as a conference in Atlanta for thrift directors. These

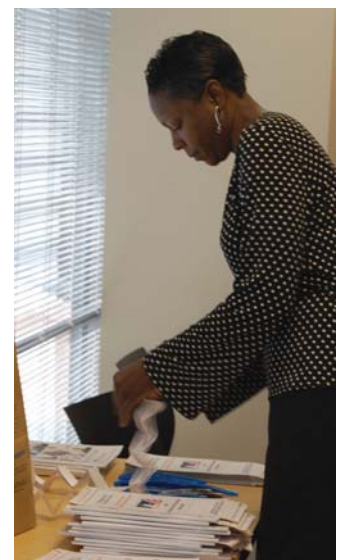
events addressed a broad array of topics essential to effective planning and management in the current environment, including accounting, capital markets, consumer compliance, information technology and safety-and-soundness matters.

The region also held town meetings, where thrift executives and senior regional staff members shared information and candidly discussed concerns. Officials in the region were involved in numerous community events, conferences and schools, including instructing at the American Bankers Association's compliance schools, other trade association seminars and the Graduate School of Banking. The region also



participated on regulatory panels in a variety of forums.

In what as been a challenging year, the OTS Southeast Region takes pride in its service to the thrift industry and local communities, and the positive relationships the regional staff continues to enjoy with all of its constituents ■



Central Region

1 South Wacker Dr.
Suite 2000
Chicago, IL 60606

312-917-5000
312-917-5001 - FAX

Applications:

Don Gignac
312-917-5021
312-917-5001 - FAX

Number of thrifts:
198

Total thrift assets:
\$123.4 billion

Number of employees:
138

Number of new employees in FY 2008: 21



The OTS established the Central Region in 2007 to improve service by dedicating agency resources and OTS decision-makers more closely to regulated thrift institutions in the Great Lakes part of the country.

The five states in the Central Region—Illinois, Indiana, Michigan, Ohio and Wisconsin—encompass a wide array of businesses and industries, including agriculture, manufacturing, financial services and tourism. Central Region headquarters is in Chicago.

Two-thirds of the thrifts regulated by the Central Region are small community banks whose business models focus on home mortgage lending. The region also includes large thrifts whose business strategies include mortgage banking and commercial real estate, as well as old-fashioned deposit gathering.

Approximately half of the thrifts regulated by the Central Region are mutually-chartered savings associations. Thrifts with mutual ownership have no shareholders and are essentially owned by their depositors. They are mostly small local banks serving their communities.

During FY 2008, the region's top priority has been to ensure the health of OTS-regulated financial institutions and their holding companies in a section of the country hit hard by the downturn in the economy. Michigan, Ohio and Indiana have been particularly affected by the declining auto industry and related manufacturing. Unemployment rates throughout much of the region exceed the national average and rates for residential loan delinquencies and foreclosures are among the highest in the country.

Establishing a new region in this economic climate has been a challenge. Members of the regional staff have had to focus on two fronts: effectively overseeing and regulating the thrift industry, while hiring new employees and setting up a new infrastructure of systems, administration and procedures to efficiently operate the region.

The region also reestablished relationships with thrifts in the region and improved communications with them. The region hosted several "town hall" meetings with Chief Executive Officers of OTS-regulated institutions around the region to discuss the latest regulatory matters and challenges unique to their areas. At these meetings, regional officials had an opportunity to hear thrift managers'



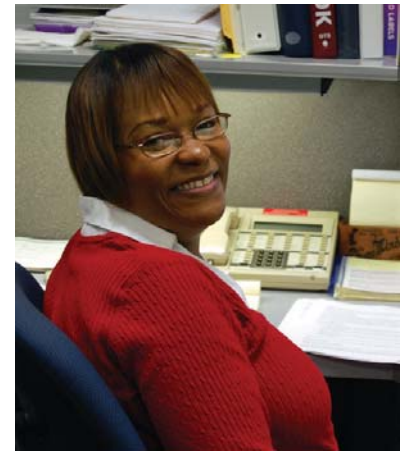
Thomas A. Barnes
Regional Director

ideas on how the region could better fulfill its regulatory responsibilities.

During the year, the Central Region also focused on building and strengthening relationships with other regulators on the state and federal levels. The region shares regulatory responsibility with state regulators for 32 state-chartered thrifts in Illinois, Indiana, Ohio and Wisconsin. The OTS jointly regulates these thrifts with state banking departments. The Central Region participated in FY 2008 in regular meetings with other federal and state bank regulators to discuss risks unique to states in the region. Regional managers also participated in speaking engagements and regulatory panels with trade associations that represent OTS-regulated institutions. All of these outreach efforts helped the region's staff to understand the pressures the thrift industry faces in the current financial environment.

The Central Region offered training courses to provide thrift managers with the latest information about current regulatory issues, including a seminar for members of thrifts' boards of directors, a workshop on compliance matters and the Community Reinvestment Act, a Financial Management Seminar and a Credit Officers Forum.

Amid the impact of the economic downturn on the thrift industry and the challenges it created for OTS supervisory efforts, the staff of the Central Region immersed itself in interesting and difficult issues, and achieved significant accomplishments during its first year of operation ■



Midwest Region

225 E. John
Carpenter Freeway,
Suite 500
Irving, TX 75062-
2326

Mail:
P.O. Box 619027
Dallas/Ft. Worth, TX
75261-9027

972-277-9500
972-277-9501 - FAX

Applications:
Jearlene Miller
972-277-9576
972-277-9586 - FAX

Number of thrifts:
170

Total thrift assets:
\$129.4 billion

Number of employees:
125

**Number of new
employees in
FY 2008: 12**



C.K. Lee
Regional Director



The OTS Midwest Region runs through the heartland of America, sweeping down from the Canadian border, across the Great Plains through Texas and Louisiana and on to the Gulf of Mexico.

Although the region has large cities and large thrift institutions, there are substantial numbers of small towns, farms and ranches, and the community banks that serve them.

More than half of the thrifts in the OTS Midwest Region are in towns with populations of less than 50,000, where bank managers have strong community ties and often greet their customers by name. It is a region defined by agriculture, reasonable housing costs, a good labor supply and a generally favorable tax environment.

Thrifts tend to be smaller and spread over wide expanses in the Midwest. The largest OTS-regulated institutions in the

region are in cities, such as San Antonio, Austin, Dallas, Wichita, Oklahoma City, Lincoln, Minneapolis and Des Moines.

Although the downturn in the U.S. economy continues to reverberate through the states in the Midwest Region, the impact is not as severe as in other parts of the country. The unemployment rate in the region's 13 states is 20 percent better than the U.S. average and housing data is generally more positive. In fact, during FY 2008, home prices rose in all Midwest Region states except Minnesota, while the U.S. average declined.

The resiliency of the agricultural industries during this downturn has helped buffer the Midwest Region economy. Higher commodity prices have improved farm income even in the face of sharply higher energy prices. The easing of energy prices later in the year helped boost farm earnings even more. The outlook for agriculture and related businesses is predicted to be strong into fiscal 2009.

Senior management changed in the Midwest Region during the year as Frederick Casteel, the Regional Director for 15 years, was appointed OTS Ombudsman in February. C.K. Lee was appointed new Regional Director in May. In addition, Regional Deputy Director Bruce Benson retired in August and Gary Scott was selected to assume this key position.

The Midwest Region participated in a wide range of outreach events during fiscal 2008. The region's Community Affairs department helped thrifts maneuver through the housing and economic crisis by organizing forums, participating in collaborative efforts and partnering with other federal banking agencies, non-profit corporations and grass-roots community organizations. These activities provided valuable information to regulated thrifts and their

communities about mortgage loan fraud prevention, consumer education, home foreclosure prevention, small business development and opportunities in community development lending and investment. The initiatives helped institutions meet the credit needs of their communities and customers, while assuring that consumer rights were recognized and enforced.

The Midwest Region organized two Directors Forums during the year, one in Kansas City in October 2007 co-sponsored by the Heartland Community Bankers of America and the other in New Orleans in September 2008. At the forums, thrift directors learned more about corporate governance, asset quality, management, nontraditional mortgages, accounting, compliance, liquidity, information security and other topics.



The Regional Director also kept communication channels open during the year by hosting CEO Outreach meetings in Albuquerque, Dallas and New Orleans, where senior executives expressed their concerns and cited challenges their institutions were facing.

In response to industry requests for training, the Midwest Region held four Compliance Hot Topics Workshops in August on compliance with the Community Reinvestment Act, Fair Lending Act, Bank Secrecy Act, Flood Disaster Protection Act and guidelines on reducing home equity lines of credit. The region also held four Financial Management Seminars in June 2008 attended by institutions' financial managers as well as independent public accountants.



Since the establishment of the OTS in 1989, the Midwest Region has conducted outreach meetings and training continuously. These efforts remain as successful as ever. The regional staff is proud that its outreach efforts have enjoyed a run of almost 20 years and that these efforts have maintained a valuable communication channel between the OTS and the region's regulated financial institutions ■

West Region

Pacific Plaza
2001 Junipero Serra
Boulevard, Suite 650
Daly City, CA
94014-3897

Mail:
P.O. Box 7165
San Francisco, CA
94120-7165

650 746-7000
650 746-7001 - FAX

Major offices:
Santa Ana, Seattle

Applications:
Penny Marshall
206-829-2606
206-829-2620 - FAX

Number of thrifts:
70
Total thrift assets:
\$360.7 billion
Number of employees:
174
Number of new employees in FY 2008: 23



Darrel W. Dochow
Regional Director



The West Region, headquartered near San Francisco, contains a wide expanse of states across the American West, along the Pacific Coast and outside the continental U.S. in Alaska, Hawaii, and Guam. The region includes some of the states hardest hit by the national housing slump and financial fallout.

As the economic climate worsened in FY 2008, employment and home prices across the region declined by more than the national average — most markedly in California and Nevada — and OTS-regulated thrifts felt the impact.

Home prices declined in all states of the region, except Montana. Five states — California, Nevada, Arizona, Oregon and Washington — showed the largest drops. Of the nation's 10

metropolitan areas with the highest year-over-year home price declines, the West Region had six. In fact, in September 2008, the California cities of Los Angeles, Oakland and Riverside had the highest 12-month home price declines in the country — about 28 percent. Nationally, homes prices declined 11 percent during the period.

Housing starts also continued to drop across the region and inventories of unsold homes grew, while mortgage delinquencies and foreclosures were at all-time highs for all types of borrowers in all states of the region.

In addition to high unemployment and persistent home price declines, the West Region's significant mortgage lenders suffered severe liquidity pressures when the secondary market virtually dried up and public confidence was shaken.

In this stressed environment, the financial performance of West Region thrifts declined dramatically. Ripple effects from the housing crisis hit auto lending, consumer loans and commercial lending, manifested in the form of growing problems in asset quality, increased need for allowances for loan losses and reduced earnings. Compared with a year ago, nonperforming assets tripled, troubled assets doubled and return on assets declined by half.

This deteriorating performance required the supervision staff of the West Region to intensify its financial monitoring and examination efforts throughout the fiscal year. These efforts resulted in downgrades in many institutions' safety-and-soundness ratings and upticks in the number of supervisory actions and enforcement actions, formal and

informal, taken by the OTS. Regional managers worked closely with financially distressed thrifts to develop and execute strategies for raising capital and otherwise

information and institution ratings, frequent information-sharing briefings with senior OTS leaders at headquarters in Washington, D.C., and close coordination with other



regulators. The West Region also sponsored workshops, seminars, forums and meetings on the predominant issues of the housing crisis.

In early 2008, the West Region addressed the weakening economy, housing sector and mortgage market by issuing a regional bulletin on credit risk management, which became the centerpiece of discussion during the OTS's inaugural Credit

resolving their difficulties. Although supervising thrifts during the crisis posed an extreme challenge, the West Region's seasoned, experienced workforce and recently hired specialists rose to the occasion by meeting the demand for sensible and responsive oversight.

Forums for Chief Credit Officers in Seattle, Denver, San Francisco and Los Angeles during April and May. Industry participants heard regulatory perspectives about emerging risks and problem asset management, and shared information about their challenges, experiences and best practices.

During these unprecedented times and rapidly changing economic landscape, strong and frequent communication with external and internal stakeholders of the OTS was critical. The West Region made an extraordinary effort in fiscal 2008 to keep every line of communication open through frequent case reviews among OTS's regional supervision staff members, regular contacts by OTS relationship examiners with institution managers, more frequent field visits to thrifts, improved communication during examinations, close monitoring of all available financial information to ensure up-to-date supervisory

The West Region collaborated with other federal banking agencies in March 2008 to sponsor the biennial National Interagency Community Reinvestment Conference in San Francisco. The conference



focused on loan modifications, foreclosure prevention, financial education and opportunities for thrifts to strengthen their communities. The conference was timely in view of the stresses in the housing market, rising mortgage delinquencies and related foreclosures.



stresses in the housing market, rising mortgage delinquencies and related foreclosures.

In July 2008, the West Region hosted four workshops on the Community Reinvestment Act and compliance requirements, covering hot topics such as Bank Secrecy Act

enforcement, unfair and deceptive credit card practices, flood insurance and reducing home equity lines of credit.

A Directors Forum in July 2008 for members of thrifts' boards of directors dealt with corporate governance, fiduciary responsibilities, management compensation and managing risk and liquidity.

The region also held three Financial Seminars in September 2008 on accounting for loan modifications, troubled debt restructuring, loan loss allowances, regulatory capital, capital markets issues and liquidity monitoring.

As in years past, the West Region reached out to thrift chief executive

officers through several annual Town Meetings, where CEOs received regional economic overviews, heard regulatory updates and participated in discussions on emerging issues and examination-related topics. During the trying economic times, CEOs welcomed the opportunity to communicate freely with their regulators ■



OTS Operations

Highlights and Accomplishments

OTS Operations support the agency's core mission of ensuring the safety and soundness of thrifts and thrift holding companies, and of protecting consumers.

The sections that follow describe each main area of OTS operations, from the mission-critical areas of Supervision, Consumers & Communities, and Legal Affairs to the mission-support roles under Employees, Public Affairs, Information Technology and Financial Management.

Each section reviews the highlights and accomplishments during FY 2008 — issuing important guidance to the industry, finalizing key regulations, improving service to consumers, issuing legal opinions, increasing efficiencies, hiring and training new employees — as the agency responded to the economic crisis and worked to maintain the vitality of the thrift industry.

These OTS Operations sections chronicle the depth and breadth of the agency's achievements in FY 2008 and set the bar for the coming year ■



Director Reich joins Washington Mayor Adrian Fenty, other city officials and neighborhood children outside a city recreation center in April after the OTS donated 250 laptop computers for communities across the city.

Supervision



The OTS Supervision and Consumer Protection Team: Timothy T. Ward (center), Deputy Director for Examinations, Supervision and Consumer Protection; Left to right: Lori J. Quigley, Managing Director for Supervision; Grovetta Gardineer, Managing Director for Corporate and International Activities; Ward; Montrice G. Yakimov, Managing Director for Compliance and Consumer Protection; and Tom Day, Managing Director for Risk Management.

The core mission of the OTS is to supervise U.S. thrift institutions and their holding companies to maintain their safety and soundness, to ensure compliance with consumer laws and to encourage a competitive industry that meets America's financial services needs.

Condition of the Thrift Industry

The economic downturn and persistent decline of the housing market had pronounced negative effects on the operations of the OTS-regulated thrift industry during fiscal year 2008. As home prices continued to fall across the nation, institutions were faced with a rising tide of home mortgage delinquencies and foreclosures.

The record level of loan loss provisions recorded for the year demonstrated the impact on asset quality and earnings. The industry added \$35 billion to bolster loan loss reserves during the fiscal year, resulting in weak earnings and net losses. Increased provisions for loan losses reduced net income to a negative \$18.8 billion for FY 2008 from a positive \$11.2 billion in FY2007. Return on average assets was also negative in FY 2008 at minus 1.29 percent, down from a plus 0.74 percent for FY 2007.

As asset quality declined during the year, troubled assets (loans 90 days or more past due, or in accrual status, plus repossessed assets) more than doubled, rising to 2.40 percent of assets at the end of FY 2008 from 1.19 percent at the end of FY 2007. Like the troubled asset ratio, the ratio of net loan charge-offs to assets increased sharply during FY 2008. Net loan charge-offs (loans or portions of loans written-off as uncollectable, offset by any recovery of loans previously charged-off) measured 1.10 percent of average assets for FY 2008, up from 0.35 percent for FY 2007.

The number of problem thrifts-with the lowest composite safety-and-soundness exam ratings of 4 or 5-also increased during FY 2008. There were 23 problem thrifts, or 2.8 percent of all thrifts, at the end of FY 2008, up from 12 (1.4 percent) a year ago. Significant disruptions in the liquidity and capital markets contributed to the failures of three thrift institutions in

FY 2008. These failures resulted in a 25 percent decline in the aggregate thrift industry assets to \$1.18 trillion, from \$1.57 trillion at the end of FY 2007.

Despite these pressures, capital levels remained strong. The industry's equity-to-assets ratio was 9.24 percent and 98 percent of all thrifts, holding 99 percent of industry assets, exceeded the regulatory standard to qualify as "well-capitalized." As of September 30, 2008, 12 thrifts were "adequately capitalized" and six thrift institutions were "undercapitalized."

The OTS continues to focus supervisory attention on weaknesses in compliance and on meeting Community Reinvestment Act (CRA) requirements and information technology (IT) standards. As of September 30, 2008, 94 percent of thrifts were rated 2 or better in compliance (with a 1 rating being the best); two thrifts were rated 4 and two thrifts were rated 5. On CRA, 91 percent of thrifts were rated satisfactory or better. Eight institutions received "Needs Improvement" ratings on their CRA examinations and one was rated as being in a state of "Substantial Noncompliance." Also, at the end of FY 2008, 92 percent of thrifts were rated satisfactory or better on IT.

Thrift exposure to the US housing markets continues to be a significant risk to the health of the industry. The OTS examination process includes a thorough review of each institution's risk management practices to ensure the proper level of attention to business planning, risk analysis and monitoring, account management and problem asset management. Each examination, as well as the agency's

overall exam strategy, focuses on risk, devoting the greatest resources to the highest risk areas.

Mortgage Metrics

Throughout the economic downturn, as secondary mortgage markets seized up and thrift institutions faced increased levels of home mortgage delinquencies and foreclosures, OTS consistently urged institutions to work with troubled borrowers, even while they dealt with liquidity issues.

As community-based lenders, thrifts remain focused on residential mortgage lending, with 45.8 percent of assets invested in one-to-four family mortgage loans as of the end of FY 2008. The volume of mortgage refinancings, as a percentage of total mortgage originations, remained strong as borrowers continued to convert adjustable-rate mortgages to fixed-rate mortgages.

On March 3, 2008, the OTS encouraged OTS-regulated mortgage servicers to use a standard template developed by the HOPE NOW alliance to report information on modifications of securitized, subprime adjustable-rate mortgage loans. In a memorandum to Chief Executive Officers of OTS-regulated thrift institutions, the agency pointed out that the use of a standard template would support monitoring of foreclosure prevention efforts and provide transparency for investors in loan securitization trusts.

In a separate initiative, and building on the efforts of HOPE NOW, the OTS requested loan level data from a subset of its mortgage servicers to

better assess mortgage loan performance and loan modification efforts. The OTS released its initial Mortgage Metrics Report on July 3, 2008. The initial report covered activity during the quarter ending March 31, 2008 and was based on data from the five largest servicers of residential mortgages among OTS-regulated thrifts and their affiliates. These five institutions serviced a combined 11.4 million first-lien residential mortgages with an aggregate outstanding balance of \$2.3 trillion. The report provided a baseline of comprehensive, standardized data to track loan modifications and repayment plans, and a basis for assessing the effectiveness of foreclosure prevention initiatives.

On September 12, 2008 the OTS joined forces with the Office of the Comptroller of the Currency (OCC) to issue a combined report on mortgage performance for the second quarter of 2008. The combined report covered more than 90 percent of first lien mortgages held or serviced by federally regulated banks and thrifts. The combined portfolio in the report represents 34.7 million loans worth \$6.1 trillion.

The report confirms that actions by national banks and thrifts to prevent home mortgage foreclosures have materially reduced new foreclosures despite an overall decline in mortgage credit quality. From January to June 2008, new loan modifications increased by more than 80 percent, while new payment plans grew by 8 percent, according to the report. The two types of loss mitigation actions reached more than 90,000 borrowers in June alone. The report also provides an additional tool to help examiners assess emerging trends,

identify anomalies, compare institutions to the rest of the industry, evaluate asset quality and loan-loss reserve needs, and evaluate the effectiveness of loss mitigation actions.

Risk Modeling

OTS examines savings associations every 12-to-18 months for safety and soundness, and compliance with consumer protection laws and regulations. These examinations evaluate the association's ability to identify, measure, monitor and control risk. Due to the thrift industry's natural concentration in longer-term mortgage loans, funded with shorter-term deposits and borrowings, OTS closely monitors interest rate risk. OTS's enhanced Net Portfolio Value (NPV) Model provides an accurate estimate of each institution's interest rate risk profile. More importantly, it gives OTS the ability to value a much wider range of financial instruments and to produce a series of reports that focus on areas such as net interest income, liquidity and value-at-risk.

During fiscal year 2008, OTS continued to demonstrate its regulatory leadership in the area of off-site monitoring of risk. Each quarter, OTS's NPV Model produces more than 800 institution-specific interest rate risk reports. The reports are used to monitor interest rate risk trends in the industry and to identify specific institutions that may need closer supervision in the area of interest rate risk management. The new Web-based version of the NPV Model adds flexibility previously unavailable in the legacy model. The Web-based version can generate more targeted reports that analyze specific

APPLICATIONS ACTIVITY: 2007-2008

	Applications Filed			Fiscal 2008 Decisions		Total
	FY 2007	FY2008	Approved	Denied	Withdrawn	
Branch	255	314	315	0	11	326
Bylaw/Charter	136	157	151	1	10	162
Conditions	28	23	22	0	2	24
Control	19	38	33	0	8	41
Conversions	9	6	8	0	1	9
HC	127	88	77	0	15	92
Merger	15	18	13	0	0	13
New Institution	51	27	31	0	7	38
Merger with a Bank (Oakar)	35	33	30	0	3	33
Operations	708	581	560	2	25	587
Conversion to a Bank (Sasser)	13	9	9	0	1	10
Sub Debt/MRPS	6	10	7	0	2	9
Subsidiary	66	102	72	0	18	90
Waiver	67	69	60	0	5	65
Totals	1,456	1,535	1,444	1	60	1,505

portfolios on a balance sheet using a wider range of customized stress scenarios.

Applications

OTS grants federal thrift charters, approves savings and loan holding company structures, and reviews and approves changes in banking activities for all of its regulated institutions. The table above is a summary of all applications received in fiscal 2008.

Guidance, Outreach, and Education

OTS maintains a high level of communication with the industry, conducts numerous educational and outreach activities, provides supervisory guidance and shares information on industry best practices and emerging risks with examiners, thrifts, and savings and loan holding companies.

Guidance

- *One- to Four-Family Residential Real Estate Lending* — On September 17, 2008, the OTS revised its Examination Handbook Section 212.

The guidance warns savings associations against using investors' underwriting standards that do not meet OTS standards to qualify borrowers for loans that will be sold in the secondary market. The guidance requires savings associations to establish prudent concentration limits for loan exposure from loan commitments, warehouse (unsold loans), and repurchase risk (where a loan may have to be repurchased due to documentation problems or early payment default). Such exposure must be reported to the savings association's board of directors and will be closely scrutinized by the OTS if the level exceeds the thrift's Tier 1 capital.

- *Proposed Interagency Appraisal and Evaluation Guidelines* — Throughout fiscal year 2008, the federal banking agencies worked to develop proposed guidelines to address how associations comply with their appraisal regulation in light of changes in industry practices, uniform appraisal standards, available technologies and recent volatility in certain real estate markets. The proposed guidelines include an expanded discussion of portfolio management techniques and circumstances under which a financial institution should update or replace a collateral valuation for an existing real estate transaction.

They also incorporate three new appendices on appraisal exemptions, evaluation alternatives and terminology used in the guidelines and appraisal practices. The discussion of evaluation alternatives addresses appropriate practices and controls regarding an institution's use of automated valuation models and tax assessment values as evaluation alternatives. It addresses the agencies' expectations for institutions to establish a process and procedure for determining the appropriate use of evaluation alternatives. (OTS and the other agencies published the proposed guidelines in the Federal Register in November 2008 for a 60-day comment period.)

- *Deferred Tax Assets* — The OTS and the other federal banking agencies amended their regulatory capital rules to permit banking organizations to adjust their September 30, 2008 regulatory capital calculations for the tax effects from losses on direct and indirect investments in Fannie Mae and Freddie Mac preferred stock after the federal government's intervention. The amendment permits banking organizations to proceed as if Section 301 of the Emergency Economic Stabilization Act of 2008 (EESA) had been enacted and Revenue Procedure 2008-64 (Rev. Proc. 2008-64) had been issued in the quarter ending September 30, 2008.

Section 301 of EESA and Rev. Proc. 2008-64 provide tax relief to banking organizations that have suffered losses on certain holdings of Fannie Mae and Freddie Mac preferred stock by changing the

character of these losses from capital to ordinary for federal income tax purposes.

- *Deduction of Goodwill from Regulatory Capital* — On September 30, 2008, the OTS joined the other federal banking agencies in publishing a notice of proposed rulemaking in the Federal Register to amend their regulatory capital rules to permit banking organizations to reduce the amount of goodwill acquired in a taxable business combination that a banking organization must deduct from Tier 1 capital by the amount of any deferred tax liability associated with that goodwill. For a banking organization that chooses to follow this final rule, the amount of goodwill the banking organization must deduct from Tier 1 capital reflects the maximum exposure to loss in the event that such goodwill is impaired for financial reporting purposes. It is anticipated this proposal will be effective January 1, 2009 and the final rule may permit banking organizations to elect early adoption for purposes of the regulatory report on December 31, 2008.
- *FFIEC Business Continuity Planning Booklet* — The IT examination staff of the OTS participated in the interagency effort to update guidance for examiners, financial institutions and technology service providers to identify business continuity risks, and evaluate controls and risk management practices for effective business continuity planning. The revised booklet was released in March 2008.

- *Preliminary Examination Response Kit (PERK)* — The PERK is a formal request for information that the OTS sends to regulated institutions before examinations. In 2008, OTS updated and streamlined its PERK requests. The OTS tailors each PERK to fit the institution. OTS employees carefully design each PERK package to request only the information OTS needs to conduct the examination. This approach eliminates unnecessary requests for information, reduces regulatory burden on institutions and increases the efficiency of examinations.

Outreach - Corporate Governance

- *Director's Seminars* — In FY 2008, OTS held one-day seminars in each of the OTS's five regions to assist thrift directors in becoming more aware of the best practices of effective boards of directors. Over 300 thrift directors attended the seminars. Also, in April 2008, the OTS updated two publications for thrift directors, the Directors' Guide to Responsibilities and the Directors' Guide to Management Reports. The Directors' Guide to Responsibilities is a comprehensive publication that covers topics such as selecting and retaining competent management; establishing a thrift's objectives and strategies; establishing policies and procedures to achieve those objectives; identifying and understanding associated risks; monitoring and assessing the progress of operations; and, ensuring the institution's compliance with laws and regulations. The Directors' Guide to

Management Reports is a more detailed publication that explains management reports commonly used by thrifts and directors in exercising their oversight duties and responsibilities. In 2009, OTS plans to present two seminars — one in the West and one in the East — with the theme, "How Your Board Can Perform a Self-Evaluation."

Education

- *OTS IT Examination Staff Conference* — In fiscal 2008, the OTS held a three-day staff conference at its Washington, D.C. headquarters for agency staff members with responsibilities for IT supervision and examinations. Speakers made presentations on pandemic planning, identity theft prevention, authentication, payment cards industry security standards, cyber frauds, forensics, phishing schemes and business continuity. Highlights also included industry panels discussing remote deposit capture and the challenges faced daily by industry Chief Information Officers. About OTS 75 staff members attended from around the country.
- *FFIEC Information Technology Conference* — The OTS co-chaired this three-day annual event designed to inform IT examiners and safety-and-soundness examiners with IT examination responsibilities about current and emerging "hot topics" in the areas of information security, identity theft and IT risk management. Speakers were nationally recognized industry leaders.

Disaster and Emergency Preparedness

The OTS is actively involved in initiatives to address emergency and disaster preparedness. In October 2007, the OTS urged thrifts in areas affected by the Southern California wildfires to consider all reasonable steps to meet customers' financial needs while maintaining standards of safety and soundness. OTS emphasized that thrifts in affected areas could:

- Consider temporarily waiving charges for late payments and penalties for early withdrawal of savings;
- Reassess the credit needs of their communities and offer prudent loans to help rebuild;
- Restructure borrowers' debt obligations, when appropriate, by adjusting payment terms;
- Solicit state and federal guarantees and other means to help mitigate excessive credit risks; and
- Consider all available programs offered by the Federal Home Loan Banks.

For the past 20 years, the OTS in conjunction with the other FFIEC agencies has issued guidance to the industry with regard to disaster recovery and business continuity planning. During examinations, OTS reviews each institution's plan for continuity of operations and emergency preparedness. OTS participates on the Financial and Banking Information Infrastructure Committee to improve the reliability

and security of the financial industry's infrastructure.

Global Financial Services

The OTS supports international collaboration, and promotes effective and efficient supervision across borders and across sectors of the global financial marketplace. The OTS is the supervisor for U.S. thrift holding companies, including a number of financial conglomerates active in the European Union (EU). The EU seeks to enhance coordination among relevant supervisors and to ensure that financial conglomerates domiciled outside EU member countries are subject to an equivalent level of supervision by foreign supervisors. The OTS was the first regulatory authority designated by the EU as a consolidated coordinating regulator of a holding company with operations in the EU.

In its role as home supervisor to internationally active conglomerates, the OTS sponsors an annual "supervisors college," where banking, securities, and insurance supervisors from Europe, Asia, Latin America and the United States discuss common concerns related to group supervision. As a host supervisor, OTS coordinates its efforts with foreign home supervisors on conglomerate supervision and on supervision related to the Basel Committee Bank Supervision regime.

Additionally, to formalize cooperation on supervisory matters, the OTS forges information sharing agreements and cooperation arrangements with foreign supervisors. The OTS has information

sharing arrangements with 16 foreign supervisory agencies. During 2008, the OTS and the other US bank regulatory agencies opened negotiations for such agreements with several more.

The OTS maintains an active presence in international supervisory and industry organizations. OTS is on two Joint Forum working groups that deal with issues common to banking, securities and insurance sectors, including regulation of financial conglomerates. Because of the significant number of major insurance firms that hold thrift charters, the OTS is an observer in the International Association of Insurance Supervisors and monitors international insurance issues. The OTS is also a member of the Association of Supervisors of Banks of the Americas, improving cooperation with supervisors throughout the North American and South American continents.

International Basel II Risk-Based Capital Framework

In late 2007, the Federal Deposit Insurance Corporation (FDIC), Federal Reserve Board (FRB), OCC and OTS approved a final rule regarding the advanced approaches for computing large bank risk-based capital requirements. The rule became effective in April 2008. Although the timetable remains unclear for banks to begin the multi-year transition process to full implementation, the federal banking agencies are continuing preparatory efforts toward that end.

On July 2, 2008, the OTS approved an interagency notice of proposed rulemaking along with the FDIC, FRB and OCC that would, if finalized, offer savings institutions the option of adopting a less complex approach for calculating risk-based capital requirements under the Basel II capital framework. This “standardized” approach would be available to all banking organizations, except those that meet the definition of a core banking organization (generally over \$250 billion in assets, or \$10 billion in foreign exposures). Although the standardized approach is a less complex alternative than the advanced approach, it is more risk-sensitive and more complex than the existing risk-based capital rules. The existing rules will also remain an option for all but the largest organizations.

Ombudsman

OTS recognizes that its decisions have a significant effect on the institutions it regulates and that supervisory decisions or examination findings may be challenged. The Ombudsman serves as a bridge between the OTS and the institutions it regulates to ensure that such decisions and findings are consistent and objective. In 2008, the Ombudsman established a formal Appeals Committee and developed a new process for the review, appeal and reconsideration of disputed material supervisory decisions. Guidelines governing the appeals process and a description of the functions of the Ombudsman’s office are contained in a Thrift Bulletin (68b) issued to all OTS regulated institutions in July 2008 ■

Consumers & Communities

Supervising federal savings associations for compliance with federal consumer protection laws is a central component of the OTS's mission and strategic focus. The OTS has taken a leading role in addressing unfair credit card practices and predatory lending. The OTS has also provided guidance and information to consumers to help them make informed choices about their mortgages. The OTS has continued to emphasize the importance of fair and honest treatment of consumers through supervisory and enforcement actions, effective handling of consumer complaints and coordination with other regulatory agencies to ensure consistency on a broad range of consumer compliance regulatory issues.

Consumer Affairs

In May 2008, the OTS launched an enhanced Consumer Response Center, a centralized service for consumers of OTS-regulated savings institutions. The center answers inquiries from consumers, provides information about thrift institutions regulated by the OTS and receives consumer complaints. In FY 2008, a year of tremendous challenge for the financial services industry, the center handled more than 9,000 consumer inquiries, more than twice the number received the previous year.

Some of those inquiries led to formal complaints. The OTS handled more than 8,000 consumer complaints in fiscal 2008, an increase of more than 40 percent from the previous year.

The OTS Consumer Affairs team — located at agency headquarters in Washington, D.C., and at regional offices in San Francisco, Dallas, Atlanta and Jersey City — reviews consumer complaints and seeks resolution of consumer issues to ensure compliance with consumer protection regulations. In addition, the OTS analyzes consumer complaint data to detect trends within institutions and more broadly across the industry. OTS examiners use the complaint data to identify areas of focus during onsite examinations. Complaint data can also reveal areas of need for agency regulation or guidance to the industry.

Compliance Policy

Unfair or Deceptive Acts or Practices

In May 2008, OTS led an interagency effort to propose rules to protect consumers against unfair and deceptive acts or practices in connection with credit cards and overdraft protection services. The proposal addressed nine practices that raise concern about fairness and transparency. The agencies received an unprecedented number of comments from a wide range of stakeholders by the time the comment period closed in July 2008. The agencies are reviewing the comment letters and expect to finalize the rule before year end.

Home Equity Line of Credit (HELOC) Guidance

The OTS issued guidance to the thrift industry in August 2008 about

compliance and consumer protection requirements associated with HELOC account management. The OTS noted that when thrift institutions manage their HELOC portfolios and mitigate the related credit risk by reducing, suspending, or terminating these credit lines, institutions must adhere to consumer protection laws and regulations.

Illustrations of Consumer Information for Hybrid Adjustable Rate Mortgage Products

In May 2008, the OTS joined the other federal financial regulatory agencies in issuing final illustrations to assist institutions in providing clear, balanced and timely information to consumers about the risks and benefits of hybrid adjustable rate mortgage (ARM) products. The agencies' Statement on Subprime Mortgage Lending, which took effect in July 2007, recommended that institutions provide this information. Although use of the illustrations is voluntary, doing so helps consumers better understand these products.

Community Affairs

Through its Community Affairs program, the OTS supports the thrift industry's community development activities and credit activities that are consistent with safety and soundness principles.

The Community Affairs staff facilitates community outreach, public programs and technical assistance to foster the availability of financial services to the communities that federal savings associations serve. The Community Affairs staff promotes financial education, financial services for unbanked consumers, strategies to mitigate the impact on communities of vacant and abandoned properties, and a host of other issues that affect communities.

During FY 2008, a bi-annual publication of the OTS, the Community Liaison, focused on programs that can provide solutions and alternatives to foreclosure. The publication also featured information about a product growing in popularity, the reverse mortgage. Excerpts of the publication have been reprinted and widely distributed.

Minority Depository Institution Program

The OTS recognizes the important role of minority depository institutions in furthering the economic viability of minority communities and low- to moderate-income areas. Minority depository institutions can also provide significant assistance and important perspective to regulators and other government agencies in evaluating and addressing the financial services needs of these areas and communities. The OTS and its predecessor agency have had an ongoing technical assistance function for minority institutions since the 1970s.

The OTS supervised 21 minority-owned savings associations in fiscal 2008 with \$6 billion in total assets. The OTS provides one-on-one technical assistance to these institutions. The degree of assistance depends on issues identified during the examination process, outreach activities by the Community Affairs staff and the level of assistance requested by the institution.

During FY 2008, OTS continued to strengthen its Minority Depository Institutions Program by:

- Partnering with the Community Development Financial Institutions (CDFI) fund to host Web-based training for minority institutions to become CDFI certified and gain access to funding and technical assistance;
- Partnering with the Department of the Treasury to host Web-based training for minority institutions to learn how to use the Minority Bank Deposit Program;
- Issuing an annual report to Congress detailing the agency's efforts to support and preserve minority depository institutions; and
- Creating an OTS Minority Depository Institution Advisory Committee to provide advice to the OTS about ways to continue to support and preserve minority institutions ■

Legal Affairs



John E. Bowman
Deputy Director & Chief Counsel

The OTS legal team plays a central role in accomplishing the agency's mission and serving the OTS-regulated thrift industry. The team drafts legal opinions, operates the enforcement program, drafts regulations to implement federal laws, helps to draft proposed legislation, litigates court cases, oversees attorneys in OTS regional offices who provide legal advice to examiners and thrifts, and offers legal guidance on applications for new thrift charters and for new activities under existing charters.

In fiscal 2008, the number of formal and informal actions against thrifts and thrift holding companies significantly increased due to the current economic crisis. For example, the number of cease-and-desist orders doubled from the previous year to 31 in FY 2008. These orders — and the eight supervisory agreements issued by OTS in FY 2008 — focused on inadequate capital levels, high levels of classified assets, poor earnings and limited liquidity. In FY 2008, the OTS also assessed civil money penalties totaling more than \$1 million against eight other institutions. In comparison, the OTS assessed civil money penalties totaling about \$13,000 against two institutions in FY 2007.

During fiscal 2008, Congress enacted landmark housing and financial services legislation in the “Housing and Economic Recovery Act” and the “Emergency Economic Stabilization

Act.” The OTS played a significant role in shaping these legislative proposals, especially in the area of foreclosure mitigation. The OTS legal team performed the key task of analyzing proposed provisions that shaped the final bills.

The team also continued its heavy involvement in fiscal 2008 in preventing abuses and ensuring the integrity of the process of mutual thrifts converting to stockholder-owned institutions. Mutuals are typically small, community-focused institutions that concentrate on the financial needs of their local areas without stockholders urging higher returns. Although the OTS strongly supports mutual thrifts, converting to stock form allows institutions to raise capital to operate their businesses and billions of dollars have flowed into the thrift industry through such conversions.

During FY 2008, the OTS issued legal opinions affirming the authority of federal thrifts to accept public deposits, even when state law prohibits such activity, and to offer certain discount programs to customers.

The OTS legal team also completed several regulatory projects of significance for the industry during the year, including final rules on:

- Fair Credit Reporting Affiliate Marketing,

As with the FIRREA legislation of the 1980's, Congress continued during fiscal 2008, to enact landmark housing and financial services legislation in the "Housing and Economic Recovery Act" and the "Emergency Economic Stabilization Act." The OTS played a significant role in shaping these legislative proposals, especially in the area of foreclosure mitigation.

- Identity Theft Red Flags and Address Discrepancies under the Fair and Accurate Credit Transactions Act;
- Risk-Based Capital Standards: Advanced Capital Adequacy Framework - Basel II;
- Optional Charter Provisions in Mutual Holding Company Structures;
- Permissible Activities of Savings and Loan Holding Companies; and
- Personal Transactions in Securities.

In addition, the OTS issued the following proposed and interim rules:

- Unfair or Deceptive Acts or Practices;
- Risk-Based Capital Guidelines; Capital Adequacy Guidelines; Standardized Framework;
- Minimum Capital Ratios; Capital Adequacy Guidelines; Capital Maintenance; Capital: Deduction of Goodwill Net of Associated Deferred Tax Liability; and
- Procedures to Enhance the Accuracy and Integrity of Information Furnished to Consumer Reporting Agencies Under Section 312 of the Fair and Accurate Credit Transactions Act ■



Employees



Matthew P. Amato
Principal Director, Human
Resources, Administration and
Human Capital

The most critical asset of the OTS in accomplishing its mission is the excellence of its workforce. OTS employees represent the strength of the agency. They play a fundamental role in ensuring that thrift industry continues to meet America's financial services needs.

As a premier financial regulator, the OTS is committed to continually exploring methods and opportunities for maintaining a highly skilled, diverse, motivated, productive and strategically deployed workforce.

Human Capital

The OTS recruits and retains a diverse workforce with outstanding abilities in the strategic competencies vital to its mission. At the end of FY 2008, the OTS had 1,070 employees, including 607 examiners possessing mission-critical expertise, skills and talent. Like other federal agencies, the OTS has an aging workforce. Within the next five years, nearly 48 percent of OTS employees in mission critical positions will be eligible to retire. To prepare for these potential retirements, the OTS established a recruitment and training program for entry-level examiners. The agency developed relationships with colleges and universities nationwide, successfully competing for top talent in fiscal 2008.

In all, the OTS hired 123 employees during the year. That included 64 employees in examination-related occupations: 49 entry-level, assistant examiners and 15 experienced

examiners. Recruitment efforts covered 21 colleges and universities, four special emphasis career fairs and one career fair for military veterans.

Sustaining a high-performing workforce by recognizing and rewarding the talents of OTS employees is also crucial to the agency's success. The OTS implemented a new performance management program in FY 2008 to require accountability for results, motivate employees to excel and ensure fairness in the workplace. The goal of the program is to instill in employees the feeling that the work they do is relevant, fulfilling and vital to the success of the OTS in accomplishing its mission.

Compensation and Benefits

The OTS offers a compensation package to its staff that includes unique agency benefits in addition to the government-wide programs provided through the Office of Personnel Management. In FY 2008, the OTS increased its subsidy for employee-paid federal health benefits and increased the employer match for its private 401(k) thrift plan. The agency also continued to provide employees with a contribution toward their OTS Flexible Spending Accounts (FSA) and enhanced the FSA program by offering participating employees a debit card to claim covered expenses. The OTS also continued to offer a free private group life insurance benefit for all employees. To keep its



Avelino L. Rodriguez
Principal Director, Human
Resources, Programs and Services



compensation program competitive, the OTS continually analyzes the best compensation practices, and reviews and enhances its program.

Professional Development

The OTS promotes a culture of knowledge-sharing and a climate of openness, continuous learning and improvement. We ensure that training programs align with the agency's strategic priorities and promote the agency's critical competencies.

OTS training and development in fiscal 2008 largely focused on preparing entry-level examiners to become accredited thrift regulators. The OTS has brought more than 150 new bank examiners on board since 2006. To achieve full accreditation and gain the required expertise in safety and soundness and consumer compliance, new examiners are participating in a multi-year program to train in the classroom and on-the-job.

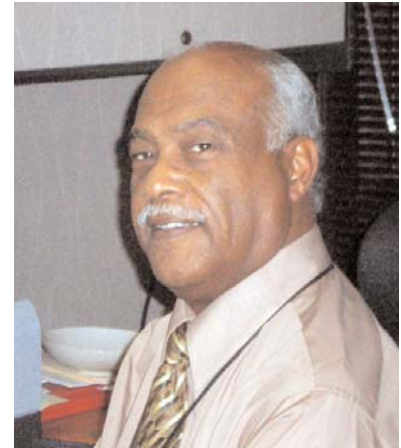
OTS also provides opportunities and support for experienced employees to build on their existing skills and learn new ones. OTS's blend of regulatory and non-regulatory training helps employees keep their skills up-to-date and relevant to industry needs. The OTS continually assesses its development needs to ensure that training and developmental opportunities are integrated and targeted to meet agency needs.

Facilities, Security and Emergency Management

The OTS made significant upgrades to its facilities in FY 2008 to improve security and energy-efficiency. Major

improvements to the headquarters building's electrical plant, heating-and-cooling controls and exterior weather sealing increased the energy-efficiency of the property. Significant investments in the security infrastructure included a new electronic security system with electronic turnstiles, card readers and smart cards. The agency also upgraded and increased closed-circuit television coverage; established visitor screening using a magnetometer, X-ray machine and Web-based visitor management system; performed X-ray screening of all deliveries to the loading dock; installed vehicle barriers on garage ramps; and procured a portable explosives detector to screen suspicious packages and mail.

The OTS made several improvements to ensure uninterrupted service to its regulated institutions, the public and employees in the event of an emergency. The agency finalized its Emergency Relocation Site Activation Plan, identified and trained members of the Continuity of Operations Plan (COOP) team and prepared, stocked and tested its Emergency Relocation Site. The agency successfully tested the emergency plan with all COOP team members. Also during the fiscal year, the OTS procured and brought online a high-speed emergency communications system to notify OTS employees and contractors of emergencies. The OTS purchased escape hoods for biological, chemical, or radiological events and issued them to OTS employees nationwide. Finally, the agency developed a new Occupant Emergency Plan, Shelter-in-Place Plan and Emergency Response Handbook, and issued them to members of the headquarters staff ■



Public Affairs



Barbara L. Shycoff
Managing Director of
External Affairs

The OTS continued its commitment throughout FY 2008 to communicate clearly and effectively with the thrift industry, the news media, Congress, trade associations, consumer groups, neighborhood organizations and the public. This communication took on added importance as the housing downturn became a crisis that ultimately affected the global economy. The OTS coordinated with other federal banking agencies and the Treasury Department to convey key information about interagency efforts to address one of the worst financial crises in U.S. history.

As events unfolded, fiscal 2008 was a busy year on Capitol Hill for housing and consumer issues. Director Reich and other agency leaders testified before Congressional committees on a wide variety of topics, including the condition of the thrift industry; risk management and systemic risk; enhanced regulatory enforcement; proposed credit card reform; efforts to mitigate foreclosures; financial literacy; restoring liquidity to the mortgage markets; the role of the Federal Housing Administration in housing stabilization and homeownership; and accomplishments and challenges related to the Community Reinvestment Act.

OTS officials responded to an unusually high number of Congressional requests for information, and met regularly with members of Congress and their staffs about legislative proposals and industry challenges. During the year,

Congress passed two major pieces of legislation dealing with housing finance and the financial markets.

Director Reich and other agency leaders continued in FY 2008 to host quarterly briefings for the news media on the performance of the thrift industry. These briefings — coupled with the release of a wide array of data on industry earnings, profitability, asset quality, capital and other measures of the health of thrift institutions across the country — provided insights for investors and the public.

The Director and other senior level officials also delivered more than 30 speeches during the year to trade associations, consumer groups, community organizations, interagency meetings and international forums across the nation and abroad. Speech topics included observations on the impact on federal depository institutions of new federal initiatives, such as the Emergency Economic Stabilization Act and the Troubled Asset Relief Program.

During the year, the OTS participated in more than 40 conferences and other events across the country, where members of the agency staff exhibited the OTS booth and educated industry executives, consumers, bank directors, attorneys, consultants and others about the OTS, the thrift charter, the latest industry issues and consumer rights.

With all eyes on housing finance issues, the agency sponsored its

second annual OTS National Housing Forum in December 2007. Two members of the Cabinet — Treasury Secretary Henry M. Paulson, Jr. and Alphonso Jackson, Secretary of Housing and Urban Development — shared their views on critical housing issues. Other agency heads also joined Director Reich at the conference: Comptroller of the Currency John Dugan, Federal Deposit Insurance Corporation Chairman Sheila Bair and Federal



Reserve Governor Randy Kroszner, as did other leading experts from the housing finance industry.

At the forum, government and industry speakers dealt with pressing issues, such as the outlook for the U.S. housing market and its potential impact on financial institutions; risks in the home mortgage market; consumer protection issues; the growing foreclosure rate; and the impact of the capital markets on housing finance.

About 300 executives attended the forum from thrifts, banks, mortgage companies, securities firms, insurance companies, housing agencies, builders, realtors, consumer groups, community organizations, as well as state agencies. Press coverage of the National Housing Forum was extensive, setting the stage for another timely and newsworthy event in December 2008.

Another important project during the year was updating the OTS public website and launching a new site with a fresh design, enhanced features and added content. Key information is now easier to find and the latest developments are spotlighted on the home page.

The new website contains an expanded profile of the OTS and its history, including a new section about each of the agency's five regions. The site also unveiled a new e-filing feature for filing certain types of applications electronically — just one improvement in a refurbished and expanded Applications section related to the thrift charter.

The website includes a renewed focus on consumers, a revised section on the OTS Ombudsman and an enhanced institution search function that allows users to view a wide array of information about any OTS-regulated thrift on a single screen.

As the worldwide economic crisis poses daunting risks to the thrift industry and the rest of the banking world, the OTS will continue the essential task of informing thrift institutions, the Congress, the public and others about regulatory responses to those challenges ■

Information Technology



Wayne Leiss
Chief Information Officer and
Chief Financial Officer

The OTS made innovative use of technology in FY 2008 to support the agency's core mission and improve efficiency.

One area of focus was on examinations and other supervisory activities. The goals were to streamline processes, bolster security and improve accessibility of information, while making it easier for OTS-regulated institutions to provide data to the OTS.

In November 2007, the agency completed a nationwide deployment of more than 800 Blackberry devices to examiners, managers and employees with disaster-recovery responsibilities. This investment increased productivity by the agency's distributed examination workforce, while improving the effectiveness of office operations at headquarters and in the regions.

In March 2008, the OTS deployed an automated Pre-Exam Response Kit (PERK) to the agency's examination staff. This new system streamlined the examination process by automating the collection of pre-examination documents and data from thrift institutions. The PERK provided a standardized, consistent pre-examination data request and new options for securely transmitting requested data to the OTS.

In April 2008, the OTS deployed an enhanced examination resource planning tool to its five regional offices. This upgraded tool helps regional managers schedule staff for

examinations and forecast resource needs. In addition, the new application provides examiners with examination assignment information in real-time through the agency's intranet.

In August 2008, the OTS launched a new Application E-Filing feature on the agency's public website. E-Filing allows thrift institutions to electronically file certain applications and notices with the OTS, which reduces paperwork, simplifies OTS administrative processes and enhances communications between the agency and its regulated institutions.

A second area of focus for information technology at the OTS in FY 2008 was on migrating from an in-house system to process payroll and personnel actions to the Department of Agriculture's National Finance Center for payroll and the Department of the Treasury's HR Connect system for personnel actions.

This migration, completed in September 2008, is reducing processing costs and increasing agency efficiency through the use of "self service" portals for managers and other employees.

Information Security and Privacy

To perform its mission, the OTS must ensure the confidentiality, integrity, availability and protection of business

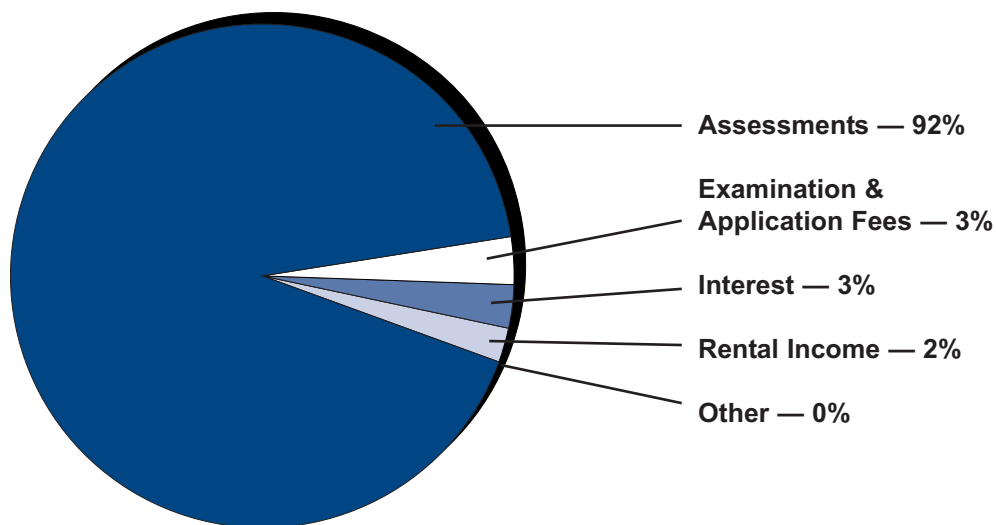
sensitive and personally identifiable information. These protections extend to electronic information, as well as traditional paper-based media. The agency continues to implement security controls mandated by the Federal Information Security Management Act and the National Institute of Standards and Technology. We certified and accredited all information systems during the year. The OTS also protects the privacy of its regulated institutions, the public and agency employees by implementing recommendations of the

Privacy and Civil Liberties Act, Section 208 of the E-Government Act of 2002, OMB memoranda on privacy and the International Association of Privacy Professionals recommendations for notice, choice and consent. OTS privacy officials achieved the Certified Information Privacy Professional/Government designation during the year. The OTS also continues to reduce its reliance whenever possible on personally identifiable information, such as Social Security numbers ■

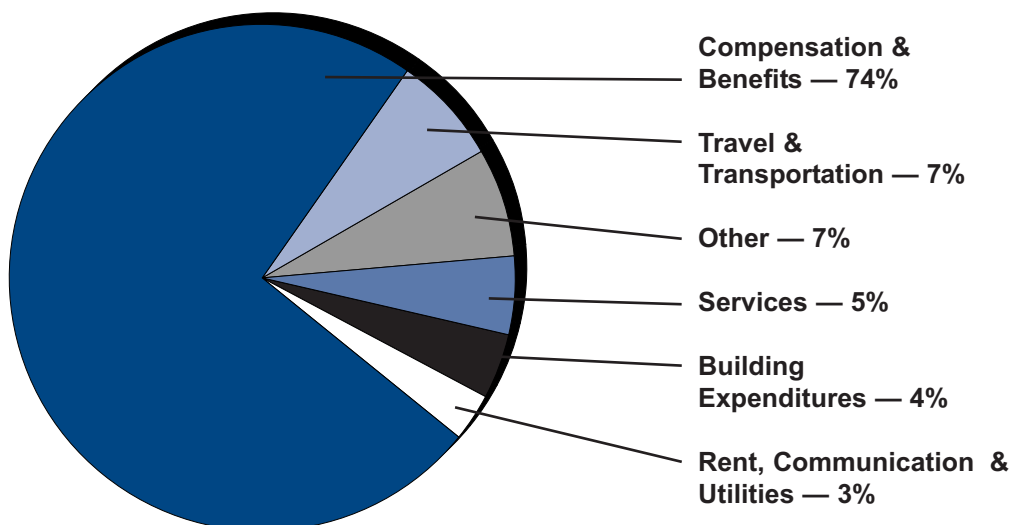
Financial Management

The OTS budget supports the agency's mission to supervise savings associations and their holding companies to meet America's financial services needs. The agency receives no appropriations from Congress; income is derived principally from assessments on regulated institutions.

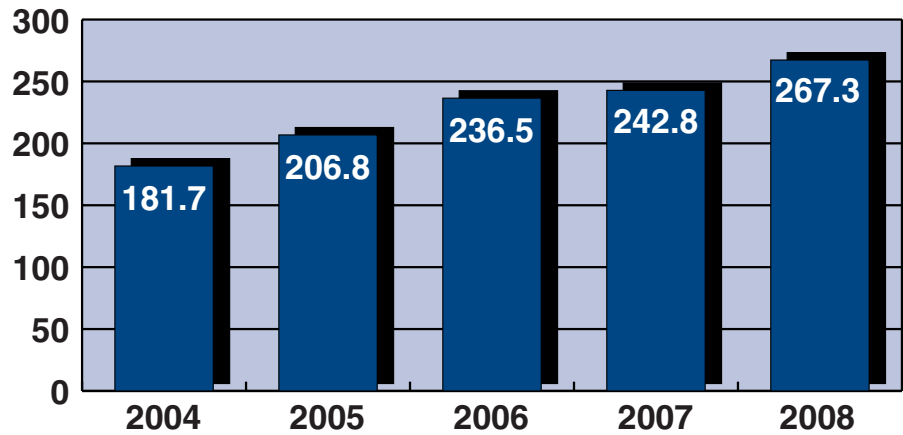
Funding Sources:



Funding Uses:

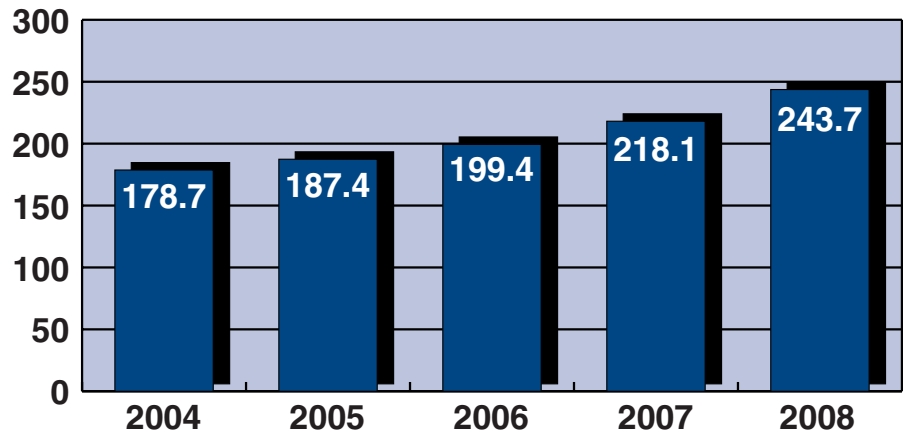


OTS Total Revenue: in millions

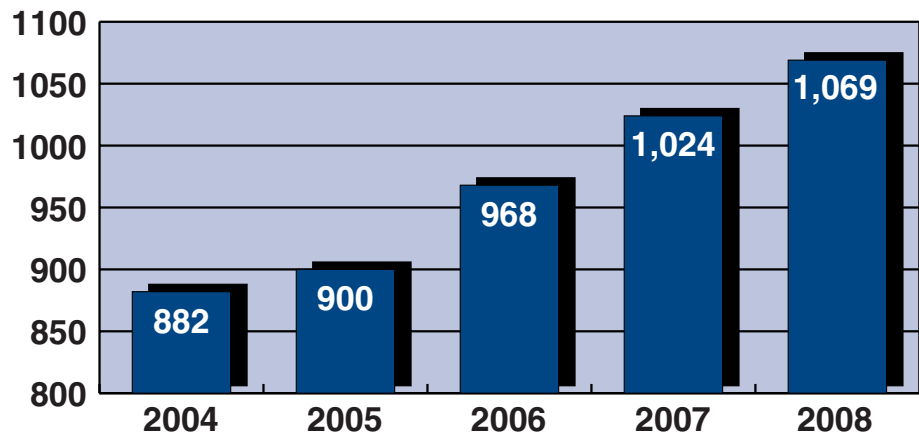


The agency continues to focus on sound financial management.

OTS Total Operating Expenses: in millions



OTS Staff: at the end of each fiscal year



When Director Reich joined the OTS in 2005, the agency reversed several years of decline in the number of agency employees and began an initiative to build up its workforce, especially among examiners ■



Fiscal Year
ANNUAL REPORT
2008



Office of Thrift Supervision

Department of the Treasury

1700 G Street, N.W.

Washington, D.C. 20552

www.ots.treas.gov