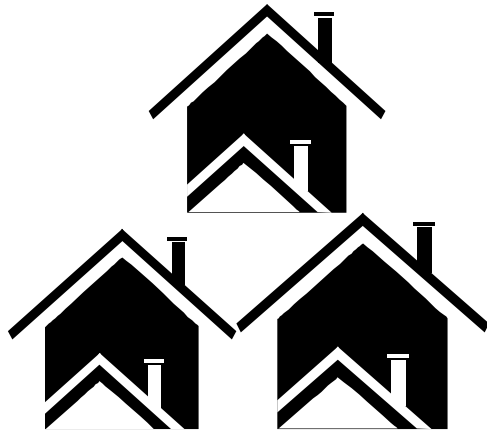


# **Strategic Plan (2000 – 2005) for the Office of Thrift Supervision**



**Mission Statement: To effectively and efficiently supervise thrift institutions to maintain their safety and soundness in a manner that encourages a competitive industry to meet America's housing, community credit and financial service needs and to provide access to financial services for all Americans.**

August 2, 2000

## From the Director

The Office of Thrift Supervision was established by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) to serve as the thrift industry's primary Federal regulator.

**Our Ten Year Anniversary** August 9, 1999 marked the tenth anniversary of FIRREA and OTS. During the past ten years the thrift industry has become strong and vigorous. OTS's regulatory efforts help ensure that the thrift industry will be better able to fulfill its own role of helping to meet America's housing, community credit and financial service needs, including the needs of those areas and individuals in greatest need.

**Looking Forward:** On November 12, 1999 the Gramm-Leach-Bliley Act was signed into law. This new law, popularly known as the Financial Services Modernization Act, is the culmination of many years of work to bring the legal structure of the U.S. financial services industry in line with what is actually happening in the marketplace and to prepare it for the future. Nothing in the new law affects the structure and standing of OTS; the law's impact on the thrift charter is limited. The law includes important privacy protections for consumers and improves OTS's ability to enforce the Fair Credit Reporting Act. The new law has another intangible benefit—it confirmed the continuing role of the Federal thrift charter in meeting the nation's financial needs.

Today's thrift industry is strong, but interest rates are rising and competition among those who provide financial services is growing ever stronger. OTS will continue diligently supervising the industry's safety and soundness. Thrift institutions are particularly vulnerable to interest rate risk because thrifts make and hold home mortgages with the fixed or capped interest rates consumers demand, and fund these with shorter-term savings or demand deposit accounts. Uniquely among the federal bank regulators, OTS actively monitors and supervises interest rate risk through quarterly stress testing of the portfolios of individual institutions. Of course, like other bank regulators, OTS also must deal with challenges raised by credit, operational, managerial and other risks—all in a rapidly changing, technologically challenging environment. OTS's purpose is to ensure that the thrift crisis of the 1980's is never repeated.



Ellen Seidman  
Director

August 2, 2000

## Notification of Where to Send Comments or Questions

Comments or questions regarding OTS' Strategic Plan should be sent to:

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## Enabling Legislation

The Office of Thrift Supervision (OTS) was established by Congress as a bureau of the Department of the Treasury on August 9, 1989. OTS is headed by a Director who is appointed by the President, with Senate confirmation, for a 5-year term. The Director also serves on the boards of the Federal Deposit Insurance Corporation (FDIC) and the Neighborhood Reinvestment Corporation.

OTS's primary statutory authority is the Home Owners' Loan Act (HOLA). Under HOLA, OTS is responsible for chartering, examining, supervising, and regulating federal savings associations and federal savings banks. HOLA also authorizes OTS to examine, supervise, and regulate state-chartered savings associations and provide for the registration, examination, and regulation of savings association affiliates and holding companies.

OTS is headquartered in Washington D.C. and has five regional offices, in Jersey City, Atlanta, Chicago, Dallas and San Francisco. The Washington D.C. office develops nationwide policies and programs for the agency and coordinates the operations of OTS. The regional offices, each headed by a Regional Director, are OTS's front line, examining and supervising institutions, and processing most applications.

**Mission Statement: To effectively and efficiently supervise thrift institutions to maintain their safety and soundness in a manner that encourages a competitive industry to meet America's housing, community credit and financial service needs and to provide access to financial services for all Americans.**

## Environmental Scan

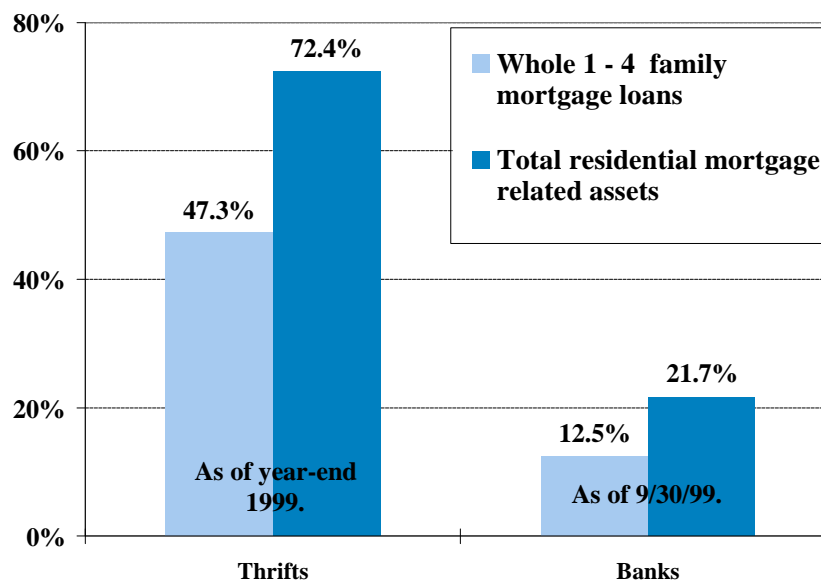
**OTS and the Thrift Industry:** Both the thrift industry and OTS are in solid financial condition. For the third consecutive year, the nation's thrift industry had record earnings in 1999, reaching \$8.2 billion and surpassing the 1998 earnings of \$7.6 billion by 9 percent. Return on average assets (ROA) was 0.98 percent for 1999, the highest annual rate of return since the same rate was achieved in 1962. Net interest margin was steady, and the industry's control of overhead costs resulted in non-interest expense falling to 2.1 percent of average assets in 1999 compared to 2.3 percent in 1998.

The amount of equity capital in the industry remained stable at \$67.3 billion from the end of 1998 to the end of 1999. Rising interest rates, along with a rapid growth in assets, caused the ratio of equity capital to total assets to drop below 8 percent to 7.79 percent, but the industry remains substantially above the five percent well-capitalized standard. Ninety-eight percent of the institutions regulated by OTS are well capitalized, and only 0.2 percent are less than adequately capitalized.

Higher interest rates and lower refinancing activity reduced mortgage origination volume in the fourth quarter of 1999 from the recent record-breaking levels. Single-family mortgage originations in the fourth quarter of 1999 totaled \$47.8 billion, down 41 percent from the record \$81.5 billion in the fourth quarter of 1998. The decline in originations was widespread among all mortgage lenders, but the fall off may have been less for thrifts than for other lenders due to thrifts' originations of adjustable rate mortgages (ARMs) which are generally in greater demand when interest rates rise. Total mortgage originations fell to \$61.4 billion in the fourth quarter of 1999.

The OTS-regulated thrift industry continues to be heavily concentrated in home lending. As of year-end 1999, thrifts held 47.3 percent of their assets in whole one-to-four family loans, and an additional 25.1 percent of assets in other residential mortgage products (including mortgage securities) for a total of 72.4 percent of their assets in residential mortgage products. In contrast, commercial banks held only 12.5 percent of their assets in whole one-to-four family loans at the end of the third quarter of 1999 (the latest period for which data is available) and an additional 9.2 percent in other residential mortgage-related assets for a total of only 21.7 percent of their assets in residential mortgage products.

**Percentage of Residential Mortgage Products to Assets  
(Comparing Thrifts and Commercial Banks)**



The number of thrift institutions regulated by OTS declined to 1,103 at the end of 1999, down from 1,145 at the end of 1998. Industry assets increased 5.6 percent to \$863 billion at year-end 1999, the highest level since 1991 when assets totaled \$895 billion. One small thrift failed in 1999, the first thrift failure since 1996, with minimal projected cost to the Savings Association Insurance Fund.

## **External Factors Which Could Affect Achievement of OTS's Mission**

**U.S. Economic Environment and the Thrift Industry:** The continued economic expansion, along with a vibrant housing sector, have been significant factors in the thrift industry's strong financial performance. However, a sharp downturn in the U.S. economy, or a large and sustained increase in interest rates could impact the economic performance of the industry. Based on data from OTS's econometric model estimating thrift exposure to interest rate risk, as of year-end 1999, 57.1 percent of OTS-regulated thrifts would realize at least a 20 percent loss in their economic value if interest rates increased sharply (i.e., increased by 200 basis points). While of concern, even this severe shock should not cause a significant number of institutions to drop below the "adequately capitalized" level.

Over the last two years, the thrift industry has successfully coped with a low, flat yield curve that has hurt portfolio margins, but has driven mortgage originations to record levels. However as interest rates continue to rise and the yield curve steepens and inverts, mortgage originations and refinancings will decrease, and the industry will be challenged with finding new customers and new ways to serve old customers, develop new products (or bring back old products) and do it while keeping overhead expenses low and internal controls in place. As the thrift industry goes forward into the next millennium, OTS management will be especially watchful of several areas including:

- ⇒ thrifts taking on more risk in traditional business areas (such as construction lending that is speculative or outside their regular business areas) without proper management, standards, oversight or controls,
- ⇒ thrifts incurring increased interest rate risk without adequate capital to cover the increased risk,
- ⇒ declines in equity capital or the quality of capital.

A substantial decline in the thrift industry's economic performance derived from a general economic downturn, could impede OTS's ability to achieve its goals of 1) maintaining and supporting a competitive and financially sound industry in a dynamic marketplace, and 2) supporting the thrift industry's efforts to expand the full range of housing and financial services to all segments of the community. Aggregate credit availability and the overall safety and soundness of the industry would, of course, become regulatory focal points during a period of general economic stress. Similarly, the thrift industry could be under sufficient economic stress that it would be difficult to maintain, much less enhance, its competitiveness. Finally, because a substantial amount of thrift assets are concentrated on the West Coast, an area with an historically volatile real estate market, the thrift industry is vulnerable to significant regional economic downturns.

**Industry Consolidation:** Inter-industry consolidation is occurring in the marketplace. This presents both challenges and opportunities for OTS. With respect to effective financial supervision and regulation, consolidation requires OTS to supervise and examine larger institutions doing non-traditional activities over a wider geographic area, and in unusual corporate structures. For example, although insurance companies have owned thrifts for years, new entrants have quite different and frequently more complex corporate structures and strategies. Consolidation can also limit consumer choice, the reach of the Community Reinvestment Act (CRA), and the availability of local civic leadership. On the other hand, by working closely with these institutions, OTS often has the opportunity to assist them in bringing more—and different types of—resources to under-served areas.

Intra-industry consolidation is also occurring, although the pace seems to be slowing somewhat. From 1994 - 1997, an average of 140 institutions left OTS's jurisdiction annually (mostly through acquisition by commercial banks and conversion to commercial banks). In 1998 the number of OTS-regulated thrifts fell by 70 (with 109 exits and 39 entrants). During 1999 there were 80 exits and 38 entrants for a net decrease of 42 OTS-supervised institutions. More than 50 percent of the thrift industry's assets are held by 13 institutions, each with assets in excess of \$10 billion. Charter changes or acquisitions by a bank would materially reduce industry assets and the OTS assessment base, although recent changes in OTS's assessment schedule, to include some off-balance-sheet assets, may moderate this effect.

**Retaining Staff:** The capability to attract and retain a highly skilled workforce is vital to OTS's ability to achieve its mission in today's rapidly changing regulatory arena. Successfully competing for staff with the requisite knowledge and skills is one of the more challenging tasks faced by OTS management. The average OTS employee has over 17 years of Federal service. While an experienced staff is a valuable asset, many OTS employees are currently at the top of their salary range, at the upper end of their occupational group, and—often—eligible for retirement. Thus, the agency faces a situation that tests the skill of management to energize employees.

Like most other public agencies, and a considerable number of private companies, OTS cannot compete effectively for talented employees on the basis of salary alone. To help make OTS the kind of place where its employees are proud to work, OTS management has considered many useful and creative proposals and adopted several of them. Some employment benefits that have been recently added include:

- an agency contribution to help pay for health care costs and a health benefits premium subsidy
- enhanced agency contribution to retirement benefits
- an upward adjustment of all salary ranges
- adjustments to the geographic differential percentages based on 1999 survey data
- merit increases when appropriate
- telecommuting in regional offices
- a pilot telecommuting program in Washington for selected projects



- a pilot professional development program in one of OTS's regional offices and 2 Washington offices

OTS believes it has a total employment compensation and benefits package that will help make OTS's offering comparable to other financial institution regulators. OTS management believes that as OTS moves into the next millennium, it is well-positioned to compete for, to motivate, and to retain a top-caliber workforce.

## Accomplishing OTS's Strategic Goals and Related Performance Goals

**Strategic Goal 1: Through efficient and effective supervision, maintain a safe and sound industry that meets its responsibilities to those it supervises and to communities.**

Through the examination process, OTS assesses the financial condition and risk profile of thrift institutions and identifies violations of law and regulation and potential financial and economic problems. The OTS examination process assists in preventing the development or continuation of unsafe operating practices and effects timely resolution of identified problems or weaknesses, whether in safety and soundness, consumer protection or implementation of public interest statutes such as the Bank Secrecy Act and the Community Reinvestment Act.

OTS is in the process of developing an improved oversight and monitoring program that will assess high risk and high profile institutions. Thrifts engaged in particular types of activities (retail lending, mortgage banking, internet banking, etc.) will be monitored as distinct groups to identify emerging issues. In addition, OTS is developing specialty career tracks for examiners to enhance agency expertise in a designated area of concern (i.e., retail lending or commercial lending). This expertise will enhance the examination process and the development of OTS supervisory policies.

### Current Performance Goals that Support Strategic Goal 1

1. Conduct at least 95% of safety and soundness exams, 95% of compliance exams; 90% of holding company exams; 85% of trust exams and 80% of information systems exams for all institutions scheduled to receive such examinations.
2. Ensure that 100% of OTS-regulated thrift institutions operate in a safe and sound manner or that OTS has taken appropriate supervisory or enforcement action.
3. Ensure that at least 95% of OTS examination reports reviewed comply with OTS examination policies and procedures.
4. Ensure that at least 95% of OTS-regulated thrift institutions rate the value of the examination process as “satisfactory” or above.
5. Ensure that 100% of OTS-regulated thrift institutions comply with consumer protection, fair lending, community reinvestment, bank secrecy and other public policy laws and regulations.

6. Ensure that 100% of OTS-regulated thrift institutions are at least “adequately capitalized” or are under a Prompt Corrective Action Directive or are recapitalized to the “adequately capitalized” level or operating within an approved Capital Plan within 150 days of becoming undercapitalized.

### **Strategies for Achieving Current Performance Goals Related to Strategic Goal 1**

- Train examiners and direct examination support staff to deal with emerging issues, such as new financial instruments, electronic banking, and new types of trust activities.
- Improve supervision of nontraditional institutions, including diversified unitary holding companies.
- Improve the examination and supervision process to provide more oversight of the risks associated with the industry’s use of securitizations, complex financial instruments (including equity instruments), and off-balance-sheet transactions.
- Review examination follow-up and corrective action process for greater efficiency and effectiveness, as well as more consistency among regions.
- Create written guidance concerning the use and desirability of informal corrective actions (board resolutions and directives) to address problems.
- Improve coordination of enforcement actions with supervisory objectives through issuance of an Enforcement Customer Service Plan.
- Enhance the agency’s capacity to monitor, identify, and access risk factors affecting the thrift industry.
- Improve the consistency and quality of examinations by using the full knowledge base of the Agency to develop an appropriate supervisory approach for each institution.
- Strive to minimize the occurrence of, and promptly resolve, inadequately capitalized institutions.

### **Crosscutting Strategies to Achieve Goals**

OTS works closely with the other 4 federal financial institution regulators to address issues and programs that go beyond the scope and jurisdiction of any one agency in an effort to develop similar policies, programs and regulations. The other 4 regulators are: the Board of

Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), and the National Credit Union Administration (NCUA). The Director of OTS and the Comptroller of the Currency are members of the FDIC Board of Directors; this arrangement facilitates the development of consistent policies and regulatory practices among the FDIC, OCC and OTS.

The Federal Financial Institutions Examination Council (FFIEC), which was established in 1979, is comprised of members of each of the agencies listed above and is empowered to prescribe uniform principles, standards, and report forms for the federal examination of insured depository institutions and federally insured credit unions. The FFIEC makes recommendations to promote uniformity in the supervision of insured depository institutions and federally insured credit unions, develops standardized software and provides uniform examiner training. The FFIEC has numerous committees and task forces that focus on specific areas of the examination process. State bank regulators are non-voting participants in the FFIEC, enhancing coordination within the dual banking system.

### **Crosscutting Efforts with Other Federal Financial Regulatory Agencies Related to Achieving Strategic Goal 1**

- OTS is involved in numerous efforts with the other federal financial institution regulatory agencies—FDIC, OCC, FRB and NCUA—to develop common policies, programs and regulations. These crosscutting efforts are mandated by statute, best practices for the regulation of the banking industry, and public policy to reduce regulatory burden.
- The agencies are all members of the FFIEC, which develops common examination policies and procedures. FFIEC has numerous committees and task forces that focus on specific areas of the examination process. For example, the FFIEC Reports Task Force has developed a working draft of core schedules for banks, savings associations, and bank holding companies. The Uniform Core Report will provide a common baseline of financial information for all financial institutions. Several definitional and other issues affecting the form and content of the core schedules are continuing to be reviewed. Throughout 1999, the efforts of the Reports Task Force focused on ways to reduce reporting burden by streamlining the Call Report while balancing the supervisory and other information needs of the banking agencies' users. The Reports Task Force has completed a memorandum to the FFIEC Council describing the overall framework of the proposed revisions to the Call Report which are targeted for implementation in March 2001. The Reports Task Force will also recommend that the agencies view the Core Report as an output of the regulatory reporting process rather than as an input device for reporting to the agencies.
- OTS is a member of a number of interagency working groups, outside of FFIEC, that develop common policies. The Results Act Banking Regulatory Working Group was formed in October 1997 and is endeavoring to develop common agency performance standards for examination, agency outreach, planning and budgeting. Each agency's performance plans will include strategic goals and performance measures in these areas. OTS and the other bank regulatory agencies use a common Report of Examination, and all financial institution regulators use the CAMELS examination rating system.

## **Key External Factors Potentially Affecting Achievement of Strategic Goal 1**

- Industry consolidation - Continued industry consolidation will require unique examination mechanisms and modified supervisory techniques to assess and monitor the increasingly complex structure of thrifts. More cross-regional OTS cooperation and increased cooperation with the other federal regulatory agencies and state authorities will also be needed to adequately examine thrifts that are in corporate structures with other financial service providers.
- Single event risk - The current economic environment has had a positive effect on the thrift industry. Institution failures have been almost nonexistent; thus, little OTS intervention has been required. However, a significant single event such as a stock market crash or international financial crisis could significantly impact the health of the thrift industry, increase OTS's examiner workload, and alter current staffing projections for both examiners and legal and investigative personnel.
- Competitive disadvantages in the labor market - As with many other public and private sector employers, OTS is unable to keep pace with salary escalation in the relevant labor markets for the knowledge and skill sets needed by OTS. Nevertheless, OTS offers a highly competitive benefits package, including a series of worker-friendly features (e.g., parental leave for childbirth, adoption, foster-care) to attract and retain critical staff. OTS will next focus on a comprehensive professional development program to enhance its overall competitiveness by enriching the professional experiences of its staff.
- Emerging technology - Emerging technology has introduced new ways for thrifts to offer traditional products and services. Future advances that could significantly affect OTS's examination function include the expansion and use of electronic banking initiatives, in particular the use of Internet banking, and the development of new and complex non-deposit investment products.

**Strategic Goal 2: Actively support the thrift industry's efforts to expand the full range of housing, other credit, and financial services to all segments of the community through outreach programs, industry partnerships, and proactive supervision.**

In December 1993, OTS established the Community Affairs Program to assist the thrift industry's efforts to help meet the credit and financial services needs in their communities, particularly those areas and individuals in greatest need. The objectives of the Community Affairs program include: 1) providing educational and technical assistance to the industry, the OTS staff, and others about community development needs, issues and opportunities; 2) promoting and facilitating partnerships among financial institutions, community organizations, local governments and others for the purpose of addressing credit needs and improving the availability of credit and financial services; and, 3) identifying and addressing regulatory barriers to community development.

In the Spring of 2001, OTS's Community Affairs Office will play a key role in helping to plan and conduct an OTS-sponsored, industry-wide strategic planning conference for senior level thrift executives. The purpose of the conference will be to help thrift institutions better understand business opportunities and profit potential in underserved and emerging markets, and describe various ways to serve these markets. Community Affairs staff will also sponsor or co-sponsor smaller regional forums for local thrifts on emerging markets to educate institutions about serving credit impaired or credit needy markets responsibly.

**Current Performance Goals that Support Strategic Goal 2**

1. Provide educational and technical assistance to industry representatives, the OTS examination staff and other relevant parties on community development issues, needs and opportunities; key players and programs; and investment authority or regulatory barriers.
2. Promote and help facilitate partnerships among financial institutions, community organizations, governments at all levels, and others as a means of improving the availability of and access to credit and financial services.

**Strategies for Achieving Current Performance Goals Related to Strategic Goal 2**

The Community Affairs Program defines a number of strategies each year to encourage and stimulate more thrift lending, investment and service in under-served markets. Those strategies are focused in three principal areas: outreach, training/education, and partnership building. In order to accomplish program strategies in these areas, the community affairs staff actively partners with the other banking agencies and other federal agencies; the Neighborhood Reinvestment Corporation; government sponsored enterprises such as Fannie Mae, Freddie Mac and the Federal Home Loan Banks; State Housing Finance Agencies; Indian Tribal Councils, and others.

## CRA

- Engage in a series of “town meetings” in several cities nationwide, with the goal of understanding concerns of both the industry and the communities about the current CRA regulations; and provide nontraditional institutions with guidance that will maximize their contribution to neighborhood reinvestment wherever they do business.
- Encourage innovative solutions to obstacles that impede access to affordable housing and other credit and financial services needs.
- Utilize Department of Justice findings pertaining to competitive effects of a merger when analyzing the merger’s impact on affected communities.
- Facilitate discussion between interested members of an affected community and the applicants to ensure a full and fair understanding of a merger and the effect it will have on communities.
- Carefully evaluate all merger applications to consider the loss of service in single-family and multifamily lending, community outreach and access to financial services, and mitigate any negative impact to the extent feasible, consistent with statutory standards.
- Use the application process to encourage non-predatory, non-abusive provision of credit, including home equity lending and consumer credit, to low- and moderate-income individuals and neighborhoods.

## Outreach

- Within each region, establish relationships with local thrifts, community based organizations, state, local and federal government agencies, community development practitioners and others to ascertain needs, best practices, and partnership opportunities for thrifts.

## Training, Education and Partnership Building

- Sponsor or co-sponsor training for financial institutions through national and regional conferences and local forums on various community development topics.
- Encourage a partnership approach to building and maintaining viable and healthy communities whose housing, credit and financial services needs are met.

- Provide information to the industry (via publications, the newsletter, the community affairs webpage) about current community development issues, best practices, investment authority, training opportunities, subsidy resources, reference materials, etc.

### Policy

- Clarify or seek to change (as needed) the community development investment authority for thrifts and their service corporations.
- Identify and help address regulatory barriers associated with community development and CRA issues.
- Work with other bank regulators to revise the CRA regulation to make it more flexible in addressing business strategies of, in particular, non-branch-based institutions, mid-sized institutions, and institutions focusing on service and/or investments.

### **Crosscutting Efforts with Other Federal Financial Regulatory Agencies Related to Achieving Strategic Goal 2**

- OTS will continue to work closely with the other banking regulators on CRA implementation and regulatory issues. OTS's Community Affairs staff will work with various entities at the federal, state and local level in its outreach, training and partnership building activities.

### **Key External Factors Potentially Affecting Achievement of Strategic Goal 2**

- **Economy:** A downturn in the economy may impact thrifts' appetite for and ability to engage in certain community development endeavors. It may also impact existing loan and investment portfolios. A downturn in the economy, however, will likely increase the need for credit, services and affordable housing in underserved or distressed markets.
- **Availability of Other Resources Targeting Community Development:** Much of what the private sector does in community development is dependent on the availability of other resources to supplement or leverage private sector resources.
- **Demographics:** The aging baby boomer generation and the growing immigrant population will likely impact credit needs and resources over the next decade, particularly in certain geographic locations around the country.



**Strategic Goal 3: Utilize in the most complete and efficient way the talents, knowledge and enthusiasm of the agency to keep regulatory operations at the minimum level consistent with effective supervision.**

One of OTS's continuing initiatives is to reduce the regulatory burden on thrifts while maintaining effective supervision. OTS has already significantly reduced the amount of on-site examination time; streamlined reporting requirements by moving to consolidated reports; redesigned approximately 71 percent of OTS's regulations to make them easier to understand; and eliminated unnecessary restrictions. OTS will continue writing regulations (as appropriate) in the more easily understood question and answer plain language format.

OTS is building a professional development program for all employees. The purpose of the program is to broaden and deepen employees' skills and knowledge. Resource guides will be made available to assist managers and employees in the construction of formal individual development plans for enriching each employee's current working experience. Development activities of regulatory staff will be aimed at meeting agency challenges related to thrift regulatory responsibilities.

In addition, OTS is increasing agency-wide meetings of functional specialists (such as supervisory managers, application analysts, chief counsel management) and interdisciplinary groups (such as safety and soundness examiners with insurance specialists and information technology specialists). These meetings will help improve communication, identify best practices, and strengthen consistency.

In order to further reduce regulatory burden, OTS will soon implement an overall, comprehensive strategy dealing with mutual thrifts and mutual holding companies. The purpose of the new strategy is to improve OTS supervision of mutual institutions for mutuals that don't want to convert to stock form, enhance the value of the mutual holding company charter, and make improvements to the mutual-to-stock conversion process.

**Current Performance Goals that Support Strategic Goal 3**

1. Reduce regulatory burden whenever possible, consistent with effective supervision.
2. Develop and maintain an OTS workforce capable of providing assistance to thrift institutions in meeting the thrifts' regulatory responsibilities. Ensure that at least 60% of regulatory staff receive at least 30 hours of training annually.

### **Strategies for Achieving Current Performance Goals Related to Strategic Goal 3**

- Continue to rewrite regulations using “plain English” techniques. Since 1996, all OTS-only regulations that have affected an entire part or subpart of the Code of Federal Regulations pertaining to the OTS (12 C.F.R. Parts 500 - 599) have been written using these techniques.
- Continue to publish proposed regulations, supervisory guidance, and legal opinions on the OTS website.
- In regulatory and supervisory documents, routinely ask for public input about opportunities for reducing regulatory burden and how OTS can communicate more clearly and effectively on regulatory and supervisory issues.
- Continually review the outstanding delegation of applications to the Regional Offices and, based on recent experience with application types, determine whether additional applications may be delegated.
- Ensure the close coordination of, and continual dialogue among, application processing, legal and compliance staffs.
- Provide staff with the opportunity to develop the knowledge and skills necessary for proficient job performance and professional development.
- Use existing and developing tools to communicate timely and continuously with staff in a useful way.
- Increase responsiveness to internal customers.

### **Crosscutting Efforts with Other Federal Financial Regulatory Agencies Related to Achieving Strategic Goal 3**

- OTS will continue working with the other banking agencies to respond fully to the requirements of Section 303 of the Riegle Community Redevelopment and Regulatory Improvement Act of 1994 to streamline and modify regulations and improve interagency consistency.
- OTS will encourage the other banking agencies to use “plain English” techniques in interagency regulatory and guidance documents.

**Key External Factors Potentially Affecting Achievement of Strategic Goal 3:** OTS often partners with the other FFIEC agencies when developing regulations and policy statements; thus, OTS cannot assure that regulatory burden will always be reduced. Moreover, there are often legal barriers to streamlining, particularly when outmoded or obsolete statutes are not repealed.

**Strategic Goal 4: Provide exceptional service to all major groups with which we interact, including the thrift institutions regulated by OTS and members of the public that deal with those thrift institutions, to make government more responsive.**

OTS primarily interacts with 1) the thrift institutions it charters, examines and supervises and 2) the customers these institutions serve. OTS provides the general public with statistical reports, securities filings of stock institutions, chartering records and other information. It helps thrift customers with inquiries and complaints concerning thrift institutions, and provides thrifts with opinions on thrift law. To provide excellent service (in compliance with Executive Order 12862 dated September 11, 1993) without compromising safety and soundness, OTS has developed service standards for the Examination process, Congressional Correspondence, External Interpretive Opinions, Public Information, and Consumer Assistance. Every program with a published service plan sends a quarterly report to the OTS Ombudsman regarding its progress in meeting its stated service standards. The Ombudsman reviews the information, meets with the appropriate office to review the data, and suggests ways to improve service.

In early 2000 OTS began an outreach effort to thrift Directors to ensure that outside board members fully understand their liabilities and responsibilities to the institution they serve. Forums have been held in Dallas, San Francisco, Chicago, Princeton and Atlanta. Discussion topics have included the role of the audit committee, the role of technology and corporate governance, risk management, business plans, and capital strategies. OTS views these forums as a proactive approach to dealing with thrift issues as they emerge. Mock thrift board meetings are held at the forums and possible solutions presented to current issues (loans to insiders, succession planning, predatory lending issues etc.). OTS plans to continue these director forums and include advanced courses in financial analysis.

**Current Performance Goal that Supports Strategic Goal 4**

1. Develop, distribute and monitor adherence to service plans for all major agency functions. Ensure that the standards specified in all service plans are met at least 80% of the time.

**Strategies for Achieving Current Performance Goal Related to Strategic Goal 4**

- The OTS Ombudsman will work to further problem resolution assistance across organizational lines of responsibility through mediation, facilitation, negotiation, or other alternative resolution methods appropriate to a particular issue. The Ombudsman will work with each of the divisions to explore possible changes in policies, procedures or processes in response to problems or trends that have developed.

- Work with Supervision Policy, the Chief Counsel's Office and OTS's regional offices to ensure that the new editions of *Directors Guide to Responsibilities*, and *Directors Guide to Management Reports* are distributed to the directors of all OTS regulated institutions. These pamphlets will also be made available, via the OTS website, to the management, boards of directors, attorneys and consultants of all OTS-regulated thrifts.
- Continue to offer a program of instruction to assist thrift directors in becoming more aware of the best practices of efficient boards of directors.

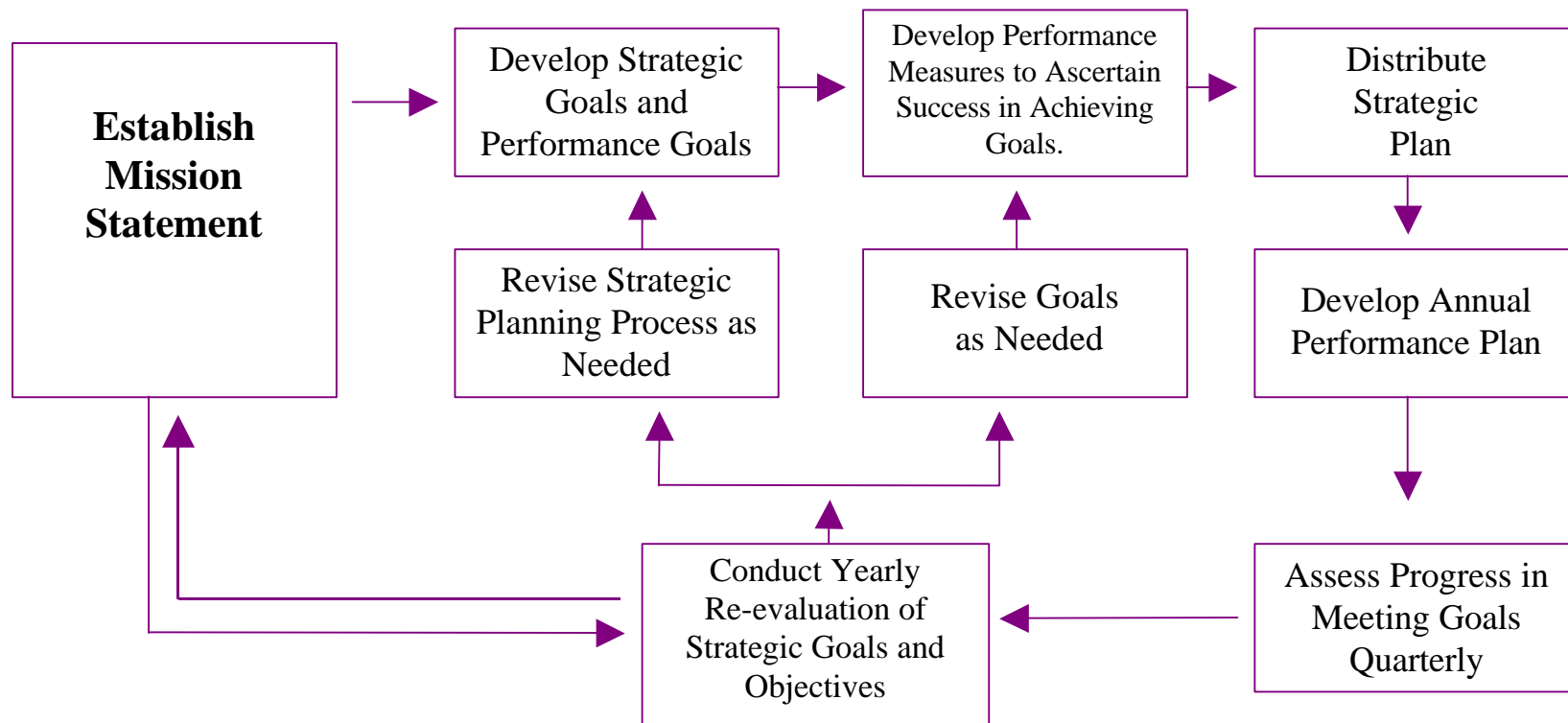
#### **Crosscutting Efforts with Other Federal Financial Regulatory Agencies Related to Achieving Strategic Goal 4**

- The OTS Ombudsman meets on a regular basis with the Ombudsmen of the OCC, FDIC and Federal Reserve to discuss common issues and share industry best practices. The OTS Ombudsman's efforts will primarily focus on problem resolution, communication and training.

## Strategic Management Process Used to Develop and Implement OTS's Strategic Plan

OTS's strategic planning efforts pre-date the passage of the Government Performance and Results Act (GPRA). Strategic planning is a continuing process at OTS. OTS's mission statement and strategic plan set a course for the organization. The strategic plan contains goals and objectives that have a six-year strategic focus. The strategic plan is implemented through the annual performance plan. Feedback for modifying OTS's strategic plan is provided through an analysis of performance reports and program evaluations.

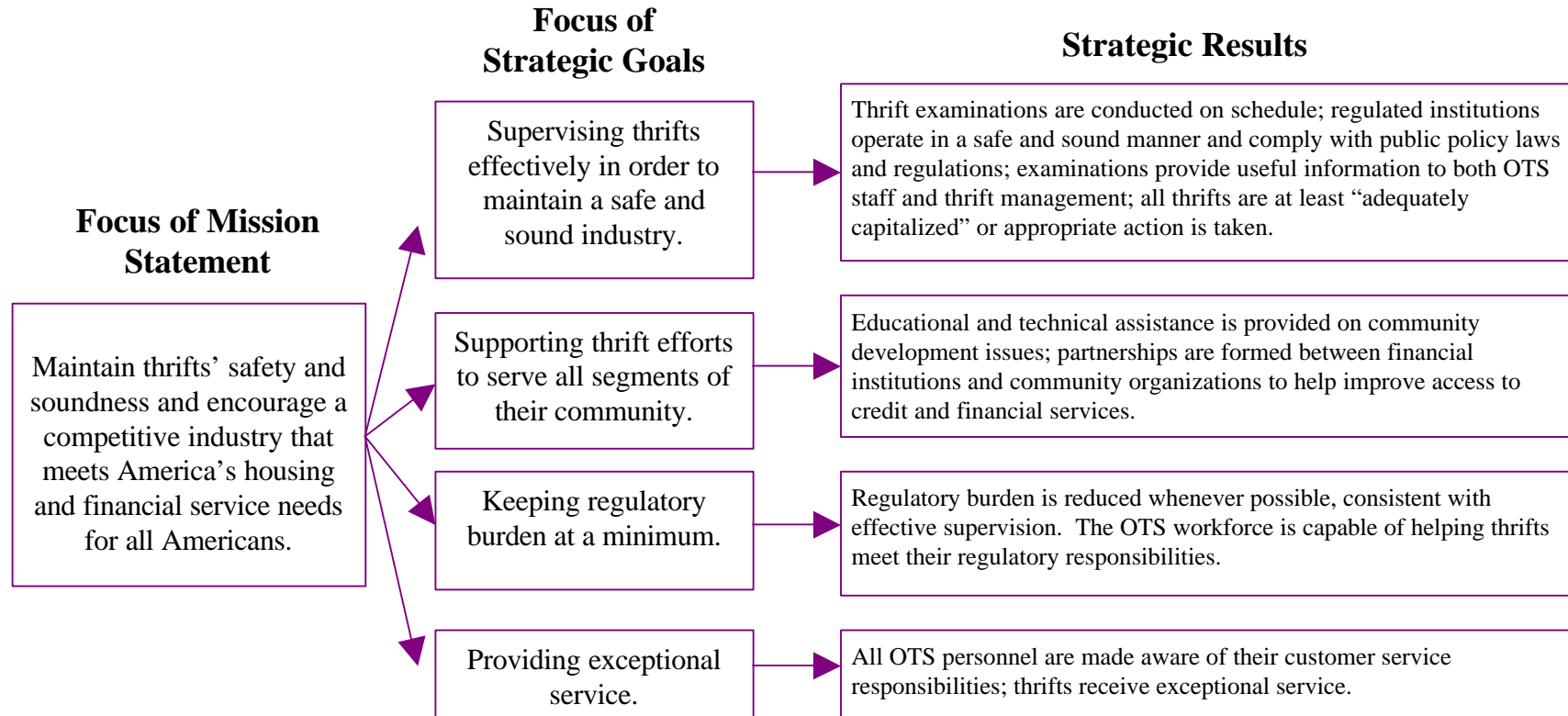
OTS's strategic planning process includes a systematic approach to establishing and revising the major goals and objectives. The strategic goals and objectives are drawn from a combination of statutory requirements, current industry developments and issues, feedback from stakeholders, and future targets for the industry. OTS's planning process, which incorporates all of the above, is set forth below:



OTS’s four strategic goals and corresponding performance goals are reviewed as part of the internal review process to ensure that the goals reflect the most important trends in the thrift industry.

OTS’s strategic planning process is constantly being modified to reflect the current developments in the industry. If no significant changes have occurred in the thrift industry during the year, OTS may begin planning in the middle of the planning process; if significant changes have occurred, the planning process would start at the very beginning, with a complete review and analysis of the OTS mission statement.

OTS’s strategic plan focuses on four major areas: 1) effective thrift supervision to maintain a safe and sound industry, 2) supporting thrift efforts to serve all segments of their community, 3) keeping regulatory burden at a minimum, and 4) providing exceptional service. Strategic results, which communicate desired outcomes, are identified for each program area and provide a link between the mission statement and the strategic goals.



**OTS has Developed the Following Strategic and Performance Goals that Link to Treasury Objectives**

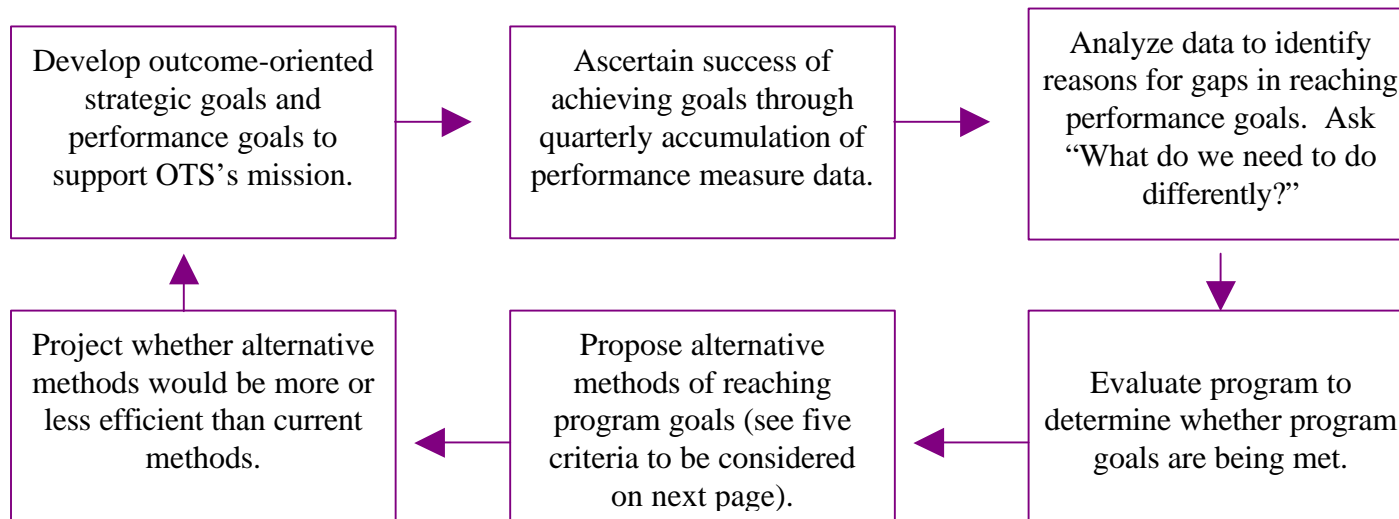
Treasury Objective	OTS's Long-Term Strategic Goals	Current Annual Performance Goals
<p>Improve and modernize the U.S. financial system.</p>	<p>Through efficient and effective supervision, maintain a safe and sound industry that meets its responsibilities to those it supervises and to communities.</p>	<p>Conduct at least 95% of safety and soundness exams, 95% of compliance exams, 90% of holding company exams, 85% of trust exams and 80% of information systems exams for all institutions scheduled to receive such examinations.</p>
		<p>Ensure that 100% of OTS-regulated thrift institutions operate in a safe and sound manner or that OTS has taken appropriate supervisory or enforcement action.</p>
		<p>Ensure that at least 95% of OTS examination reports reviewed comply with OTS examination policies and procedures.</p>
		<p>Ensure that at least 95% of OTS-regulated thrift institutions rate the value of the examination process as "satisfactory" or above.</p>
		<p>Ensure that 100% of OTS regulated thrift institutions comply with consumer protection, fair lending, community reinvestment and other public policy laws and regulations.</p>
		<p>Ensure that 100% of OTS-regulated thrift institutions are at least "adequately capitalized" or are under a Prompt Corrective Action Directive or are recapitalized to the "adequately capitalized" level or operating within an approved Capital Plan within 150 days of becoming undercapitalized.</p>
<p>Promote fair and efficient delivery of credit and other financial services and help bring residents of distressed communities into the economic mainstream.</p> <p>Foster partnerships with customers and stakeholders to achieve objectives.</p>	<p>Actively support the thrift industry's efforts to expand the full range of housing, other credit, and financial services to all segments of the community through outreach programs, industry partnerships, and proactive supervision.</p>	<p>Provide educational and technical assistance to industry representatives, OTS examination staff and other relevant parties on community development issues, needs and opportunities; key players and programs; and investment authority or regulatory barriers.</p>
		<p>Promote and help facilitate partnerships between financial institutions, community organizations and others as a means of improving the availability of and access to credit and financial services.</p>
<p>Continue to reinvent and modernize operations to achieve efficiencies.</p>	<p>Utilize in the most complete and efficient way the talents, knowledge and enthusiasm of the Agency to keep regulatory operations at the minimum level consistent with effective supervision.</p>	<p>Reduce regulatory burden whenever possible, consistent with effective supervision.</p>
		<p>Develop and maintain an OTS workforce capable of providing assistance to thrift institutions in meeting the thrifts' regulatory responsibilities. Ensure that at least 60% of regulatory staff receive at least 30 hours of training annually.</p>
<p>Improve customer service.</p>	<p>Provide exceptional service to all major groups with which we interact, including the thrift institutions regulated by OTS and members of the public that deal with those thrift institutions, to make government more responsive.</p>	<p>Develop, distribute and monitor adherence to service plans for all major agency functions. Ensure that the standards specified in all service plans are met at least 80% of the time.</p>

## Program Evaluations

**Internal Program Evaluations:** The OTS’s strategic planning effort is a dynamic and inclusive process which provides the basis for everything the OTS accomplishes. OTS has one primary program responsibility—the supervision of thrift institutions. After considering the input of its stakeholders, OTS management developed a clear and concise mission statement and four outcome-oriented strategic goals. To ensure that OTS’s strategic goals would support the mission statement, OTS management asked themselves and then answered the following questions:

- What is our purpose?
- What products and services must we deliver to meet this purpose?
- How can we meet this purpose in the most efficient and effective way possible?

OTS’s four strategic goals guide the agency’s day-to-day activities and core processes and help ensure that resources are used to support mission-related outcomes. As the thrift environment changes, OTS may alter its strategic goals, performance goals and activities to meet any new challenge and to enable OTS to continue to effectively and efficiently accomplish its mission in the immediate thrift environment. OTS measures the progress of achieving its performance goals through the development and quarterly tracking of outcome-oriented performance measures. OTS’s program evaluation process is illustrated in the diagram below:



When an alternative method of achieving a program goal is being considered, the following questions are posed and answered by OTS management.



1. What are the pertinent aspects of successfully completing the program?
2. Are these activities in compliance with law and legislative intent?
3. Are the activities being managed efficiently?
4. Are the activities accomplishing the program's stated goals and objectives?
5. Is there a better way of conducting the activity that would reach the program goals more effectively?

**Schedule of Future Program Evaluations:** As stated above, OTS's primary program responsibility is the supervision of thrift institutions. The current health of the thrift industry and the level of accomplishment cited in OTS's recent annual Performance Reports in meeting its performance measure targets indicates that OTS is accomplishing its program requirements. OTS frequently conducts process evaluations to enhance its ability to accomplish its program responsibilities. A process evaluation is an assessment of operating policies and practices used to accomplish overall program responsibilities. OTS conducts process evaluations as needed rather than on a set schedule to assure that all processes are as efficient and effective as possible.

**External Program Evaluations:** In addition to the internal process evaluations carried out on an on-going basis by OTS management, external program evaluations and reviews are conducted by the Government Accounting Office (GAO), and the Treasury Inspector General. These audits and evaluations often focus on areas of strategic interest to OTS. When appropriate, the results from such audits and evaluations are considered in the development of OTS's Strategic Plan. The following reviews and audits have recently been conducted.

**GAO Evaluations:**

Title	Date Opened	Status	Comments if Any
Study of the Impact of the Internet on the Financial Services Industry	10/27/98	Closed 7/6/99	Two reports issued: Electronic Banking: Enhancing Federal Oversight of Internet Banking Activities (GAO-GGD-99-91) and Electronic Banking: Enhancing Federal Oversight of Internet Banking Activities (GAO/T-GGD-99-152)
Study on the Current Status of Federal Preemption of State Laws as it Relates to Federal Thrifts	10/4/99	Closed Feb. 2000	Report Issued January 28, 2000, Preemption of State Law by OTS and OCC.
Implications of Proposed Revisions Governing S-Corporations	Dec. 1999	Closed June 23, 2000	No recommendations.
Study on Gramm-Leach-Bliley	May 31, 2000	Open	Study only. Final report issued September 19, 2000. No OTS recommendations.

<b>Treasury IG Audits and Reviews</b>			
<b>Title</b>	<b>Date Opened</b>	<b>Status</b>	<b>Comments if Any</b>
Follow-up Audit on Procurement Operations	12/4/97	Open	Report not yet issued. Field work completed in July 1998; draft report received 7/28/99; response provided 8/27/99; audit team back on site doing field work. Additional work performed in December 1999. OTS is awaiting a new draft report that comments on the additional work performed.
Audit of OTS's External Y2K Regulatory Efforts	10/22/98	Closed 3/20/99	Report issued 3/30/99 Office of Thrift Supervision Phase II, Year 2000 Examinations (OIG-CA-99-003); ongoing follow-ups through first quarter of 2000.
First Follow-up Customer Awareness Disclosures: OTS	10/22/99	Closed 7/2/99	Year 2000 Customer Awareness Disclosures: Office of Thrift Supervision (OIG-CA-99-007)
Second Follow-up	9/7/99	Closed Jan. 2000	Oral Report Issued.
Review of the OTS Compliance with GPRA	3/16/99	Closed	Compliance with minor comments.
Review of Thrifts' Compliance with Community Reinvestment Act.	5/25/99	Open	Audit suspended then restarted on June 20, 2000.
Audit of the Office of Foreign Assets Control's Foreign Sanction Program	6/30/00	Open	No comments to date.

Yearly Financial Statement Audit: The foundation of OTS's financial management control program is its annual financial statement audit. Between 1990 and 1999 OTS has received ten consecutive unqualified opinions on its financial statements. In addition, no material weaknesses or instances of nonconformance are pending. OTS expects to continue receiving unqualified opinions from its independent auditors.

Management Reviews: OTS also conducts periodic management reviews of its mission-critical programs, operations and functions based on the results of annual risk assessments as required by the Federal Managers' Financial Integrity Act of 1982. The Management Reviews planned for 2001 and 2002 are shown below:

## Management Review Plans

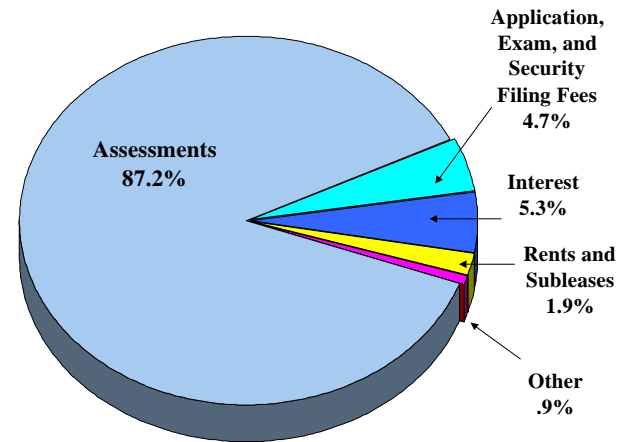
Fiscal Years 2001 - 2002

Office	Program, Operation or Function	Planned Review Year
Accounting Policy and Examinations / Supervision	Application Decisions Quality	2001
	Accounting Policy	2001
	Supervision Policy Affiliates	2001
Compliance Policy and Specialty Examinations	Technology Programs	2001
	Community Affairs	2001
	Compliance Policy	2002
Director's Office	Ombudsman	2001
	FDIC Liaison	2001
	Internal Reviews	2002
	Management Controls (FMFIA)	2002
Research and Analysis	Financial Reporting Division -Data Collection and Editing of Financial Reports	2001
	Industry Analysis	2001
Chief Counsel	Business Transactions	2001
	Regulations & Legislation	2001
Office of Information Systems	Corporate Systems	2001
	Business Systems	2001
	System Support	2001
	Records Management	2001
	Public Reference Room	2002
External Affairs	Congressional Affairs	2002
Human Resources and Training	Training Program Administration	2001
	Salary Administration	2002
	Personnel Security Program	2002
Planning, Budget and Finance	Budget Management	2002
	Travel Management	2001
Procurement and Administrative Services	Property Management	2002
	Facilities Management	2002
	Purchase Card Program	2001
	Regional Delegated Procurement Authority	2001

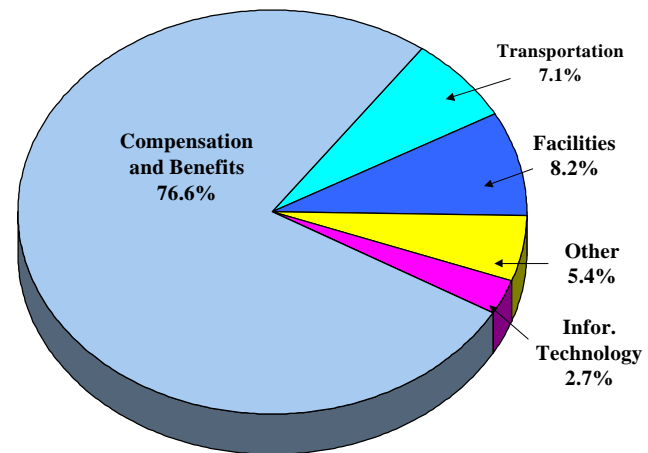
## Means Used to Accomplish OTS's Four Strategic Goals

**Operating Capital** : OTS receives no appropriated funds from Congress. FIRREA provided OTS with the authority to fund its operations through periodic assessments charged to the thrift industry. Assessments constitute the largest single component (87.2%) of total OTS income. OTS also receives funds from application fees, interest, rents and subleases, exam fees, and other miscellaneous sources.

Assessments Provide Most of OTS's Income

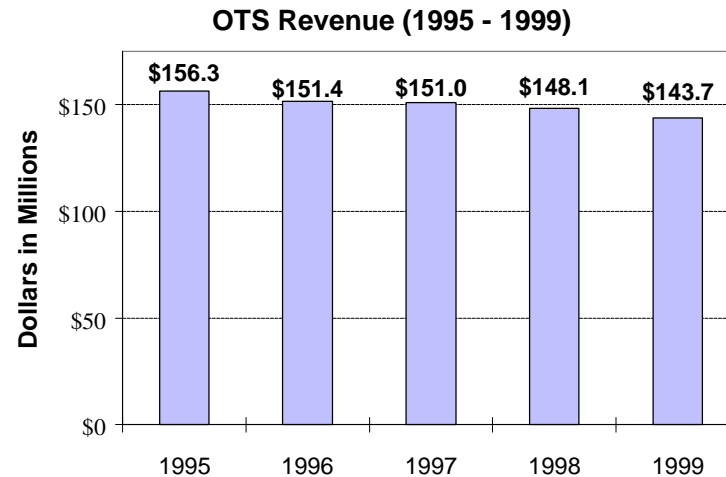


Compensation and Benefits are OTS's Largest Expense



The following chart shows OTS's 1999 operating expenses by major cost categories.

**Effective Management of Resources:** Due to the shrinkage of the thrift industry, OTS' assessment income has declined. In 1995 assessments totaled \$136.3 million; in 1999 this figure had fallen to \$125.3 million, a decrease of 8.07 percent in five years. The decrease in assessment revenue has caused a decrease in OTS's total income from \$156.3 million in 1995 to \$143.7 million in 1999, or a decrease of 8.06 percent in five years.



OTS is very aware of the importance of excellence in the area of financial management and uses an off-the-shelf accounting system purchased from Computer Data Systems, Inc. as the key component of its financial management system. The accounting system operates on a calendar-year basis and integrates the procurement, budget execution, accounts payable, accounts receivable, general ledger, and financial reporting functions and is directly interfaced with the payroll/personnel system. Approved budget data are electronically uploaded to the accounting system at the outset of each budget year. Summary financial reports and budget variance reports are provided to senior management on a monthly basis to assist in decision making. OTS maintains budgetary integrity through the continual oversight and monitoring of its annual budget. Generated reports allow the budget staff to regularly analyze the status of all accounts, review all expenditures, and make recommendations to senior management regarding potential savings and/or possible overages in the various accounts.

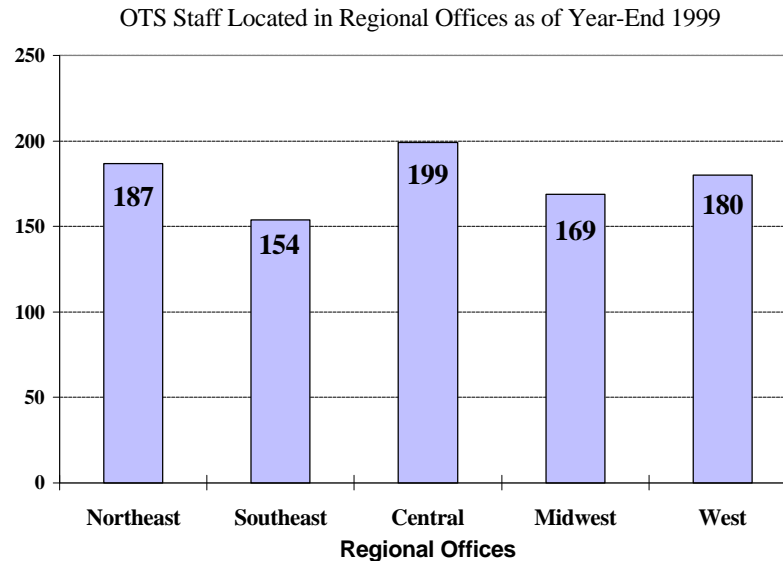
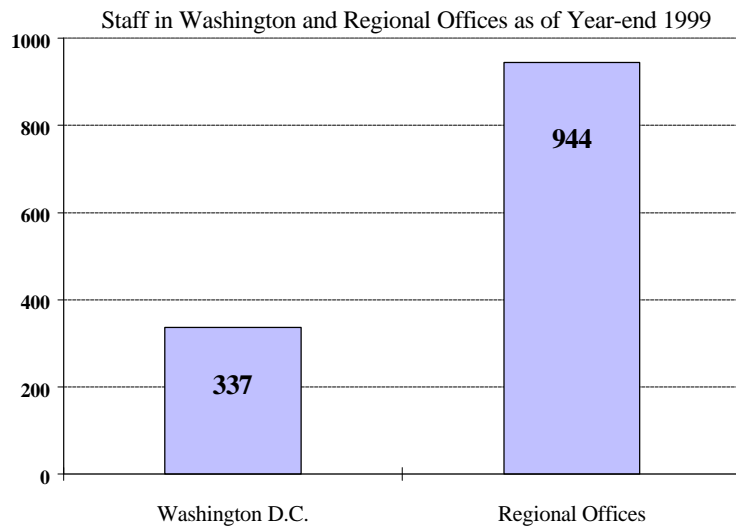
OTS maintains strong controls against fraud, waste and abuse in compliance with the Federal Managers' Financial Integrity Act (FMFIA). In addition to strong internal controls, OTS maintains comprehensive financial management controls, personnel security controls,

computer security, and strong asset accountability programs. OTS reviews its existing FMFIA program annually to ensure that it satisfies all statutory requirements and OMB guidance, and that it facilitates managers’ participation and compliance.

OTS’ Annual Assurance Statement for the fiscal year ending September 30, 1999 indicated that OTS’ management control systems are adequate and ensure that programs achieve their intended results; resources are used consistent with OTS’s mission; programs and resources are protected from waste, fraud, and mismanagement; laws and regulations are followed; and reliable and timely information is obtained and used for decision making. In addition, none of the quality assurance and other reviews, audits, management studies, or program and annual evaluations conducted during FY 1999 identified any Section 2 (programs and administrative functions) significant or “material” weaknesses, or Section 4 (financial systems) material nonconformances.

The foundation of OTS's financial management control program is its annual financial statement audit. The 1999 audit was conducted by the independent, certified public accounting firm of Deva & Associates, P.C. The audit was completed on March 24, 2000. For the tenth consecutive year, OTS was given an unqualified opinion on its financial statements.

**OTS Staff:** OTS fulfills its mission through its staff. The OTS staff consists of highly qualified individuals who represent America’s diversity. They work in an environment built on trust, respect, teamwork, communication, creativity and empowerment. The chart on the left shows the breakdown of OTS’s staff between the Washington and Regional offices. The chart on the right shows the breakdown of OTS’s regional staff among the five regional offices.



**Staff Skills:** OTS requires a highly skilled and trained staff due to the complexity of its supervisory role for the thrift industry. The heightened competition from other federally insured depository institutions, federally sponsored enterprises supporting the secondary housing markets, and other domestic financial intermediaries has increased pressures on thrifts to maintain profitability without incurring excessive risk. In order to responsibly supervise thrifts, OTS staff must evaluate thrift business characteristics such as risk management and capital adequacy, as well as identify when risk becomes unacceptable and take immediate corrective measures to mitigate problems.

The increasing operational complexity of thrifts has changed the nature of OTS's supervisory activities. OTS staff must evaluate the credit, interest rate, and other market risk dimensions of new lines of business, financial instruments, risk management strategies and corporate structures used by the entities it supervises. Such evaluations require more sophisticated strategies and more complicated financial analyses incorporating the use of econometric models that subject individual thrift portfolios to "stress tests" or other forms of sensitivity analysis. OTS also requires a highly trained and experienced legal staff to address the complex questions concerning these issues.

The increasing industry interest in using electronic banking technologies requires OTS's staff to develop an electronic banking safety and soundness program that will help examiners evaluate an institution's strategies, planning, administration and internal controls with regard to electronic banking technology. The increasing industry interest in obtaining fiduciary powers requires OTS to augment its national trust examination program by enhancing examiner training and changing the focus of its trust examinations to embrace a risk-sensitive scoping methodology.

**Information Technology:** OTS embraces recent management reforms, such as the Clinger-Cohen Act, the Paperwork Reduction Act, and the Government Performance and Results Act, which require agencies to establish a process for maximizing the value of IT investments. OTS's information technology management process is based on the underlying principle that OTS's ability to improve its services and performance depends heavily upon how well information technology can be integrated into fundamental business and mission needs. OTS's IT strategic principle is: *Integrate IT planning with OTS strategic planning, and minimize data collection impact on the thrift industry.*

Effective use of information technology enhances OTS's ability to accomplish its mission and goals. The objectives of Information Technology (IT) in supporting OTS goals are to:

- Maintain and improve the effectiveness of OTS supervision.
- Minimize the burden of necessary supervision on the industry.

- Maximize the quality of OTS's information services within budget constraints.
- Maintain the integrity, confidentiality and security of industry information resources and systems.
- Improve the overall effectiveness and productivity of OTS.

OTS's IT initiatives are identified and approved annually to address emerging and strategic OTS needs. Quality reviews by an Investment Review Board consisting of senior Washington and regional officials regularly enhance the quality of the agency's significant investment in Information Technology. OTS-wide strategic IT planning ensures investments in IT are effectively targeted in direct support of OTS business priorities.

Key IT Initiatives: OTS's mobile examination workforce is the mainstay of the OTS. Providing this workforce with effective IT systems is critical. Applications must be designed to meet their business needs and adapted to the limited bandwidth and lower reliability of remote network connections. A key initiative for 2000 is to provide the mobile examination workforce and other OTS staff with state-of-the-art hardware and software. OTS is also in the midst of a multi-year effort to modernize application software – the various systems OTS staff use to track, compile and analyze industry and examination data, as well as the systems that help manage corporate resources. The implementation plan calls for a combination of short-term and long-term projects. Several applications were successfully implemented on the web during 1999 and 2000. Long-term projects involve the core national systems that support OTS.

A second key initiative is managing OTS's data as an asset. OTS's corporate data enables OTS to perform its primary business functions of examination, supervision, and consumer advocacy. These business functions have a direct or indirect dependency on high quality data that is timely and targeted to current business requirements. Two IT strategic principles are used to manage OTS data as an asset: 1) capture data once, at its source, secure it, and make it easily available to the relevant staff; 2) ensure data integration and sharing to support business objectives.

A third key IT initiative is to develop an electronic document management system (EDMS) to organize and manage paper and electronic documents and records, and make information easily accessible to the workforce. The EDMS initiative is a multi-year project; it began in 1999 with evaluating available EDMS technology and reengineering the records management functions. The existing OTS record management processes are largely manual with records stored in paper form or microform. EDMS will provide electronic imaging and indexing of all OTS headquarters supervisory records with full storage capacity for regional records. Supervisory records will be available OTS-wide for authorized people requiring access. EDMS will also provide an automated output to the OTS web server database that will make appropriate portions of often-requested records available to the public via the Internet.



## Data Capacity

**Performance Measure Verification and Validation:** The quantitative values reported for the performance measures in OTS's Performance Plan are accurate and auditable. Several of the quantitative values are generated with the help of OTS's automated systems, which are routinely validated to ensure that they produce accurate information. For example, the Thrift Information Management System (TIM) was implemented in 1997 and integrated several systems including the Examination Data System (EDS), Report of Examination (ROE), Regulatory Action Data System (RAD), Regulatory Plan System (RPS), Corporate Structure, Holding Company Structure, and National Application Tracking System (NATS). All of these systems continue to exist, but TIM provides streamlined access to those systems, ensures the data is consistent among the systems, and produces integrated reports.

For each of OTS's performance measures, a "contact person" is assigned. The contact person is responsible for ensuring that the "level of success" reported in OTS's Performance Report for his or her measure is accurate. The contact person is also responsible for keeping auditable records.

OTS's quality assurance program, which has been in place since 1991, provides internal quality control for the examination process and for administrative functions performed in the five regional offices. OTS's Quality Assurance Reviews determine the accuracy, reliability and fairness of information and financial data produced within the regions and ensures that all regional information complies with Federal Managers' Financial Integrity Act (FMFIA) standards. FMFIA requires the heads of departments and agencies to establish internal accounting and administrative control programs in accordance with standards prescribed by the Comptroller General. OTS's Quality Assurance program will be enhanced during 2000 due to the establishment on September 15, 1999 of a new Office of Internal Review. The Director of this new office reports directly to the Director of OTS. A description of many of OTS's automated systems can be found in our 2000 Performance Plan, a copy of which can be found on OTS's internet site.

**Financial Presentation:** OTS complies with all applicable Generally Accepted Accounting Principles (GAAP), Federal Financial Accounting Standards and internal control principles. OTS's financial transactions are reported on an accrual basis. The Planning, Budget and Finance Division continually reviews new Statements of Federal Financial Accounting Standards and modifies accounting policy, procedures, and reporting, as needed.

OTS's financial management systems are discussed in Appendix F under the heading "Current Status of OTS's Financial Management Systems."

## Management Challenges

**Internal Controls** - The Federal Managers' Financial Integrity Act (FMFIA) mandated the establishment of agency internal control programs and regular evaluations of management controls and accounting systems to protect federal programs from fraud, waste and abuse. OTS maintains strong internal controls, comprehensive financial management controls, personnel security controls, computer security, and strong asset accountability programs. OTS maintains budgetary integrity through the continual oversight and monitoring of its annual budget. Generated reports allow the budget staff to regularly analyze the status of all accounts, review all expenditures, and make recommendations to senior management regarding potential savings and/or possible overages in the various accounts.

OTS recently established a new Office of Internal Review. The Director of this new office reports directly to the OTS Director and coordinates the work of quality assurance examiners. Internal Review will look at all internal controls, and work with the General Accounting Office and the Treasury's Inspector General staff. Internal Review will also analyze OTS's financial management reports and ensure that all OTS staff are working as effectively and efficiently as possible.

**Financial Statement Audit:** The foundation of OTS's financial management control program is its annual financial statement audit. The 1999 audit was conducted by the independent, certified public accounting firm of Deva & Associates, P.C. The audit was completed on March 24, 2000. For the tenth consecutive year, OTS was given an unqualified opinion on its financial statements.

**Assurance Statement:** OTS's Annual Assurance Statement for the fiscal year ending September 30, 1999, as required by FMFIA, indicated that OTS's management control systems are adequate and ensure that programs achieve their intended results; resources are used consistent with the OTS mission; programs and resources are protected from waste, fraud, and mismanagement; laws and regulations are followed; and reliable and timely information is obtained and used for decision making.

In addition, none of the quality assurance and other reviews, audits, management studies, or program and annual evaluations conducted during FY 1999 identified any Section 2 (programs and administrative functions) significant or "material" weaknesses, or Section 4 (financial systems) material nonconformances.

**Current Status of OTS's Financial Management Systems:** OTS uses an off-the-shelf accounting system purchased from Computer Data Systems, Inc., as the key component of its financial management system. The accounting system operates on a calendar-year basis and integrates the procurement, budget execution, accounts payable, accounts receivable, general ledger, and financial reporting functions and is directly interfaced with the payroll/personnel system.

OTS's financial management systems currently produce accurate, relevant and timely information and meet the requirements of the Federal Financial Management Improvement Act (FFMIA). A review of these systems as part of the Inspector General's annual audit requirement

has produced an unqualified audit for the past ten years. The system utilizes an automated Standard General Ledger (SGL) crosswalk which allows OTS to meet federal reporting standards while permitting OTS's internal management to continue receiving a more detailed breakout of accounting information. Financial reports are provided to senior management on a monthly basis to assist them in monitoring their program area.

**Conclusion:** OTS is well situated to operate efficiently and effectively as it has no outstanding material weaknesses or internal control problems and no significant audit or systems problems. OTS's recently established Office of Internal Review receives regular reports from the Washington office and OTS's Regional offices, allowing OTS to address difficulties before they become significant.

## **Consulting with Those we Supervise, Their Customers, and Other Interested Parties**

OTS's primary customers include all Americans. The American public benefits from a strong thrift industry. The thrift institutions OTS charters, examines and supervises are a different kind of customer as they are directly subject to OTS regulation and supervision. OTS endeavors to provide the thrifts it regulates with as much voice in the regulatory process as possible, usually winning voluntary compliance. To assess the quality of OTS's service, staff members continually collect information and feedback from thrifts, their customers and other affected parties. OTS informs both customers and thrifts of its strategic planning process and strategic initiatives on an ongoing basis through participation in outreach opportunities and speeches to industry trade groups.

To help ensure OTS is providing excellent service without compromising safety and soundness, OTS has developed service standards for the Examination process, Congressional Correspondence, External Interpretive Opinions, Public Information, and Consumer Assistance. Each of these service plans seeks to improve communication between OTS and one or more stakeholder or customer groups through outreach initiatives, personal interviews, roundtable discussions and town meetings. These communication tools give OTS valuable feedback on issues of concern to the industry and the public. Every program with a published service plan sends a quarterly report to the OTS Ombudsman regarding its progress in meeting its stated service standards. The Ombudsman reviews the information, meets with the appropriate office to review the data, and suggests ways to improve service.

During the course of an examination, examiners conduct entrance and exit meetings. At the exit meeting the Examiner in Charge meets with either the thrift's CEO or Board of Directors to summarize all findings of the examination and any corrective action plans. Following an examination, the Report of Examination (ROE) is forwarded to the institution within 30 days after completion of fieldwork for institutions rated 1 or 2 and within 45 days for institutions rated 3, 4, or 5. In addition, OTS supervisory staff often meet with an institution's board of directors after delivery of the ROE to discuss findings and recommendations. Subsequent to each examination, OTS sends the thrift a survey to complete so OTS can monitor its performance and follow-up on identified problems. In addition, a member of OTS's supervisory team contacts each institution at least semi-annually and is available to meet as needed, which provides for continuing communications between examinations.

Town meetings are held periodically with thrift CEOs. The meetings are conducted by an OTS Regional Director and one or more Assistant Directors, and may also include the OTS Director or Deputy Director. They are held in major cities in the region; topics discussed at the town meetings include industry concerns and regulatory developments.

OTS's Regional Offices are very active in soliciting advice from and providing information to the thrifts in their region. Regional staff participate in regulator-sponsored, industry-sponsored, and institution-sponsored training conferences, workshops and seminars on accounting and financial management, directors' responsibilities, the Community Reinvestment Act (CRA), fair lending, and other compliance issues.

OTS communicates with stakeholders and interested parties outside of the supervisory process. Copies of OTS's draft Strategic Plan, along with a request for comments, were sent to the Chairman and a ranking member of the Committee on Banking and Financial Services, U.S. House of Representatives and to two ranking members of the Committee on Banking, Housing and Urban Affairs of the United States Senate.

OTS participates with the Results Act Banking Regulatory Working Group, which meets monthly and includes representatives from the Comptroller of the Currency, Federal Deposit Insurance Corporation, and the National Credit Union Administration, in addition to OTS. The purpose of the group is to coordinate strategic planning activities and, if possible, develop cross-cutting functions, programs and/or activities.

A copy of OTS's 2000 - 2005 Strategic Plan, latest Performance Plan and CFO Report have been posted to the OTS Internet Web site and can be found at [www.ots.treas.gov](http://www.ots.treas.gov). Posting the Strategic Plan to the Internet should facilitate comments from all stakeholders and affected parties.

### **OTS Ombudsman**

The OTS Ombudsman is an independent, accessible, neutral source of assistance to thrift institutions and their customers. The Ombudsman troubleshoots and proposes different ways to improve the delivery of OTS services. He encourages the resolution of issues between thrifts and OTS directly with regional examination and supervisory staff. Being a good listener, allowing the complainant to be heard, asking questions, providing feedback, reframing issues and developing options is what ombudsmanship is all about. The Ombudsman can materially improve public satisfaction with OTS, and in the process, increase the level of voluntary compliance and cooperation, reduce litigation, and provide OTS decision-makers with the information needed to identify problems and resolve them.