

Annual Report

FISCAL YEAR 2013



150 Years of Public Service



THEN AND NOW

The OCC at a Glance: 1863

Employees	8
Offices	1
Budget authority	\$15,800
OCC-supervised institutions, total assets	\$16.8 million
OCC-supervised institutions, share of total U.S. commercial banking assets	4%*
OCC-supervised institutions	134

Source: OCC Annual Report, November 28, 1863

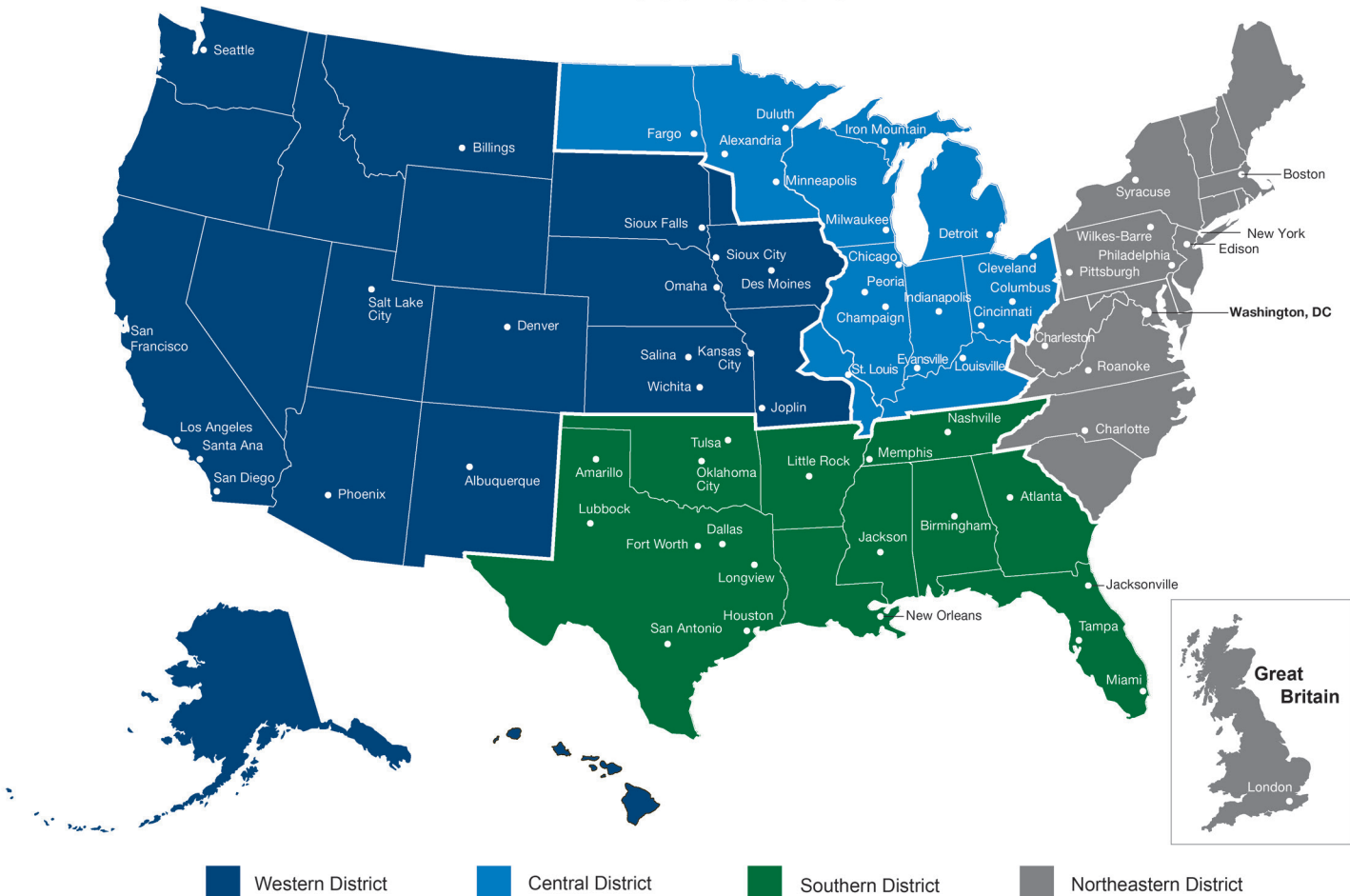
*Estimated.

The OCC at a Glance: 2013

Employees (full-time equivalents)	3,823
Office locations*	66
Budget authority	\$1.02 billion
OCC-supervised institutions, total assets	\$10.4 trillion
OCC-supervised institutions, share of total U.S. commercial banking assets	69%
OCC-supervised institutions	1,808
Large banks	40
Midsized banks	41
Community banks	1,164
Federal savings associations	515
Federal branches	48
Revenue derived from assessments	97%

*This number does not include the multiple locations the OCC maintains in some large cities. In addition, the OCC has a continuous, on-site presence at large banks under its supervision.

OCC Locations

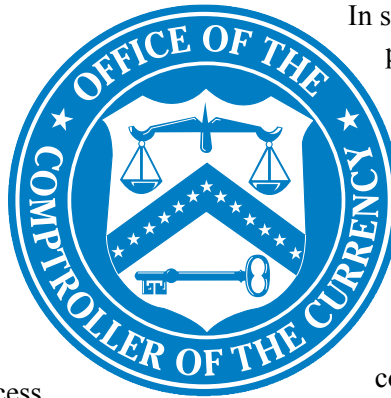


About the OCC

The Office of the Comptroller of the Currency's (OCC) mission is to charter, regulate, and supervise national banks and federal savings associations (collectively, banks) and to supervise the federal branches and agencies of foreign banks. The OCC's goal is to ensure that these institutions operate in a safe and sound manner and in compliance with laws requiring fair treatment of their customers and fair access to credit and financial products. The OCC is an independent bureau of the U.S. Department of the Treasury.

The President nominates the Comptroller of the Currency subject to confirmation by the U.S. Senate. The Comptroller also serves as a director of the Federal Deposit Insurance Corporation (FDIC) and NeighborWorks America.

Headquartered in Washington, D.C., the OCC has 66 office locations, including four district offices and an office in London that supervises the international activities of national banks. The OCC's nationwide staff of bank examiners conducts on-site reviews of banks and provides sustained supervision of these institutions' operations. Examiners analyze asset quality, capital adequacy, earnings, liquidity, and sensitivity to market risk for all banks, and assess compliance with federal consumer financial laws for banks with less than \$10 billion in assets. Examiners also evaluate management's ability to identify and control risk, and assess banks' performance in meeting the credit needs of the communities in which they operate, pursuant to the Community Reinvestment Act.



In supervising banks, the OCC has the power to

- examine banks.
- approve or deny applications for new charters, branches, capital, or other changes in corporate or banking structure.
- take supervisory and enforcement actions against banks that do not comply with laws and regulations or that otherwise engage in unsafe or unsound practices.
- remove and prohibit officers and directors, negotiate agreements—both formal (i.e., public) and informal (i.e., non-public)—to change banking practices, and issue cease-and-desist orders as well as civil money penalties (CMP).
- issue rules and regulations, legal interpretations, supervisory guidance, and corporate decisions governing investments, lending, and other practices.

The OCC and the federal banking system were created by the National Currency Act, which President Abraham Lincoln signed into law on February 25, 1863. In June 1864, the National Currency Act was substantially revised and expanded, and in 1874 was given a new name: the National Bank Act. It remains the basic statute under which the OCC and the federal banking system operate today.

The first Comptroller of the Currency was Hugh McCulloch, formerly the president of the state-chartered Bank of Indiana. McCulloch went to Washington to argue against passage of the National Currency Act but soon came to appreciate its merits.

Salmon P. Chase, Lincoln’s Secretary of the Treasury, asked him to lead the new system, and McCulloch agreed.

Under McCulloch, his successors, and a professional staff of national bank examiners, the new system made an important contribution to the robust growth of the U.S. economy. Banks under OCC supervision issued a uniform national currency, which replaced the previous varied and unreliable money supply, and provided financial services across the country.

On July 21, 2011, under provisions of the Dodd–Frank Wall Street Reform and Consumer Protection Act of 2010,¹ the Office of Thrift Supervision (OTS) became part of the OCC. As a result, the OCC is responsible for the supervision of federal savings associations, under the Home Owners’ Loan Act.

ABOUT THIS ANNUAL REPORT

Section 61 of the National Currency Act of February 25, 1863, directed the Comptroller of the Currency to report annually to Congress “a summary of the state and condition” of the national banking system, along with suggestions for “any amendment to the laws relative to banking.” Over the past century and a half, some of the most significant changes to the U.S. financial system—including the amendments to the National Currency Act enacted by Congress in 1864—began with recommendations contained within the report’s pages. Since that time, the *OCC Annual Report* has chronicled and advanced the long evolution of the nation’s financial and regulatory structure, providing the American people and their representatives with information about the federal banking system—a system that is vital to the country’s economic security and well-being.

¹ Hereafter referred to as Dodd–Frank in this report.

Contents

About the OCC	1
Comptroller’s Viewpoint	4
Section One: Year in Review	8
Section Two: People in OCC History	27
Section Three: Condition of the Federal Banking System	31
Section Four: OCC Leadership	33
Section Five: Licensing and Enforcement Measures	37
Section Six: Financial Management Discussion and Analysis	40
Abbreviations	78
Index	80

Comptroller's Viewpoint

One lesson of modern history is that no country can achieve its economic potential without the support of a healthy and dynamic banking system. For 150 years, the federal banking system has served as the financial engine of our nation's economy, evolving to keep pace with changes in the marketplace to ensure that American businesses and consumers have a banking system that is safe and sound, and capable of meeting their financial needs. In the year just passed, both the federal banking system and the OCC continued to evolve as we addressed problems left over from the financial crisis and took steps to better enable us to meet the challenges of the future.

In the years since the financial crisis, OCC-supervised banks and thrifts have recovered significantly, and that trend gained momentum in the fiscal year ending on September 30, 2013.² Banks stepped up their lending activities, simultaneously fueling and reflecting the improving economy. Better performance of existing loans—and the consequent decline in what banks set aside for losses—meant that more money was available for lending. Much of that lending went to businesses for start-up and expansion. Rising prices in many U.S. housing markets and new record highs on Wall Street made many consumers feel more confident about their financial future and, therefore, more likely to borrow to buy homes, cars, and other products and services.

Still, the overall economy and the banking system continue to face significant headwinds. Throughout most of 2013, low short-term interest rates pinched bank margins, and the abrupt increase in mortgage rates toward the end of the year, although still low by



historical standards, put a damper on new mortgage originations, especially in refinancing activity. Employment growth remained anemic, and uncertainty overseas, especially in China and the European Union, hampered growth.

These broad economic trends are of great concern, but as Comptroller, I am also concerned with something much more fundamental: restoring the public trust in the banking system that was lost during the financial crisis. I firmly believe that the restoration of trust in the system requires that we restore confidence in bank supervision.

In 2013, one of the OCC's goals was to bring to a fair resolution the many cases of bank operational breakdowns, ranging from pervasive problems in foreclosure processing to the lapses in Bank Secrecy Act and anti-money laundering compliance. In the case of the foreclosure processing breakdown, we redirected the process to provide \$3.3 billion in cash payments and more than \$5 billion in indirect aid to borrowers. This action, which we took jointly with the Board of Governors of the Federal Reserve System,

² Except as otherwise indicated, all dates in this *Annual Report* reference the 2013 fiscal year, which ran from October 1, 2012, to September 30, 2013 (e.g., "March" means March 2013).

not only has brought aid to millions of homeowners who went into the foreclosure process but also will play a significant role in restoring public trust in the system.

We took a number of other important steps to strengthen the system and build public confidence and trust, including our work on an interagency basis to implement Dodd–Frank. Of particular importance were the Volcker rule, which was designed to prevent banks from risking their capital on proprietary trading and hedge fund activities, and the risk-retention rule, which was intended to improve underwriting standards by preventing large Wall Street firms from securitizing pools of poorly underwritten loans.

These were major projects that required a number of agencies, including the banking and securities industry regulators, along with the Treasury Department, to work together in a productive and collegial way. We made great progress on each during the fiscal year covered by this *Annual Report*. In August, we proposed a new version of the risk-retention rule intended to align the qualified residential mortgage exception with the Consumer Financial Protection Bureau’s qualified mortgage rule, and accepted comments through the end of October. And as I write this article in December, we have just approved the final text of the Volcker rule. As important a milestone as that is, the real work of implementing it now begins. The OCC will be especially vigilant in our effort to establish a robust examination and enforcement program that ensures our largest institutions will remain compliant with the Volcker rule. During 2014, we will develop the necessary examination procedures and training to provide our bank examiners with the tools they need to do their job.

Another major milestone was completion of our work on the domestic capital rule. Whatever else can be said about the causes of the financial crisis, the loss of confidence in the banking system occurred in part because market participants doubted that large institutions held a sufficient amount of high-quality capital to meet their obligations in times of stress. And at the end of the day, the hundreds of community bank failures that followed the financial crisis came about because they lacked capital of sufficient quantity and quality to weather the storm. The new capital rule will

go a long way toward shoring up the system to help prevent future financial storms.

The new capital rule not only raises required capital levels but also emphasizes common equity, the form of capital that is best at absorbing losses. I was pleased that we were able to improve both the quantity and quality of capital, and were able to do so in a way that minimized the burden on smaller banks and thrifts.

In fact, as we crafted the capital rule, one of our guiding principles involved the distinction between large and small institutions. Community banks and thrifts did not cause the financial crisis, and I wanted to ensure that they were not saddled with onerous new requirements that would prove unnecessary and make it more difficult for them to serve their customers.

Thus, the final rule maintains the current treatment for residential mortgage exposures—an issue of great importance to community institutions—and exempts smaller banks and thrifts from some requirements that were better suited to larger banks. In addition, smaller institutions will be subject to lower capital requirements than large banks and thrifts. In fact, in a separate rulemaking, we proposed doubling the leverage ratio for the nation’s largest financial institutions.

We also recognized the burden that the final capital rule imposes, just by its issuance, on smaller institutions, and we took steps to ease that burden. The proposed rule was divided into separate parts, so that community banks and thrifts would not even have to read the advanced approaches section, and the final rule was accompanied by a concise, two-page guide that summarized the requirements applicable to smaller institutions. We did not, by any means, eliminate the burden entirely, but I hope that community national banks and federal savings associations will find compliance easier because of the steps we did take.

And let me be clear in saying that the success of community national banks and federal savings associations is important to the OCC. They represent the preponderant share of institutions we supervise, and they provide vital services to millions of American families, businesses, and communities. I firmly believe that these smaller banks and thrifts are the lifeblood

of communities across the nation. When they succeed, their communities prosper, and we have no more important purpose at the OCC than to help ensure that they continue to thrive.

With that in mind, we have designed a number of programs and products specifically tailored to them. For example, this year we published “A Common Sense Approach to Community Banking,” a booklet that lays out the basic principles and approaches that we have found distinguish those banks that prosper from those that merely survive—or worse, that ultimately fail. We held dozens of workshops for community bank directors, on such topics as “Mastering the Basics” and credit risk, and our economics and accounting departments continued to publish papers analyzing a variety of economic and policy issues important to community banks. Our BankNet Web site provides a number of services to smaller institutions, including tools to help them stress test their commercial real estate portfolios or to compare their institution with a self-selected peer group.

Two other programs aimed at smaller institutions got off the ground in 2013. First, the Mutual Savings Association Advisory Committee, which was originally created by the Office of Thrift Supervision, held its inaugural meeting as an OCC committee in January. Second, we chartered a new Minority Depository Institutions Advisory Committee and held the first meeting in March. I am confident that these two committees will go a long way toward helping us understand and address the unique issues facing these special classes of financial institutions.

We produce a number of other important products directed at community national banks and federal savings associations, but I have always believed that the primary way we add value is through the supervisory process. Our examiners are based around the country, near the community institutions they supervise, and they know the local market as well as anyone. They have access to all the resources a nationwide organization can supply, and they are ready, willing, and able to provide counsel and technical assistance to all of the institutions we supervise.

With respect to our large banks, which play such a vital role in financing the needs of our nation’s economy, from the family seeking revolving credit or a mortgage loan to the very largest industrial organizations seeking credit to grow, we continued work on initiatives aimed at ensuring that they operate safely and soundly. In particular, we neared completion of efforts to incorporate our “heightened expectations” program into Part 30 of our rules, which will make that program easier to enforce.

This program involves concrete, measurable objectives that will improve governance at our largest banks and make them stronger as a result. It will raise standards for audit, risk management, and controls, and it will ensure that independent directors are setting direction for their banks and serving as a credible challenge to management.

We are asking a lot of these banks, but we are asking no less of ourselves. We are evaluating every aspect of how we do our business through eight strategic initiatives covering everything from internal communication to bank supervision. The newest initiative in this program, which we refer to as our “assessing” initiative, is intended to build an ongoing process for self-assessment and improvement, and it will focus on continuous improvement of all our key processes at the OCC.

The supervisory assessment process is structured very much like a bank examination, and it is run by Larry L. Hattix, a seasoned examiner who now serves as Senior Deputy Comptroller for Enterprise Governance and Ombudsman. He reports to me, and his unit has considerable authority. If he finds a deficiency, he will issue an MRA—a “matter requiring attention,” similar to what a bank receives if we find deficiencies in an examination—and these MRAs must be cured.

As part of our process of continuous improvement, we put together a peer review study involving senior regulators from three countries that showed great resilience during the financial crisis: Australia, Canada, and Singapore. I was gratified by the willingness of our counterparts from abroad to work with us as well as the way our supervisory management and staff have embraced this project. Honest self-evaluation is uncomfortable at best, and evaluation by outsiders,

especially one's peers, can be painful. So I think this initiative is extraordinary, and it speaks volumes about the professionalism of OCC staff and the high standards they set for themselves that so many are willing to do everything possible to assess their weaknesses as well as their strengths, and to learn from past mistakes while building on our successes.

In the final analysis, even the best organizations must embrace change. Either they commit themselves to continuous improvement or they atrophy. As the OCC

nears the end of its observance of its first 150 years of service to the United States, I feel confident that the processes we have put in place throughout the agency will assure us of success well into our next century and a half.



Thomas J. Curry
Comptroller of the Currency

Section One

Year in Review

The recovery of the U.S. economy and the federal banking system continued in fiscal year (FY) 2013. Stronger capital, moderate loan growth, and better loan performance reflected the industry's improving health. However, economic uncertainty at home and abroad, stubbornly high unemployment, and earnings compression associated with historically low interest rates represent significant challenges going forward.

Public trust in the banking system has been slower to recover. During the period covered by this *Annual Report*, the OCC used its extensive enforcement powers to ensure that the institutions it supervises maintain high standards of management competence and regulatory compliance. Avoiding the operational errors of the past is crucial to the banking industry's ability to innovate and grow.

In 2013—the 150th anniversary of the OCC's founding—the agency was reminded of its roots in American history and the values of integrity, professionalism, independence, and teamwork that have long set the agency apart. In this anniversary year, the OCC recommitted itself to those values, not just as abstractions, but as an essential part of everything we do.

Capital

The financial crisis was triggered by failures of confidence and liquidity, as financial institutions, especially the largest ones, experienced difficulty meeting their obligations due to a breakdown of the funding markets. On a more fundamental level, the crisis reflected a misalignment of risk and capital—too much of the first and too little of the second. As asset values crumbled in 2008, two systemically important institutions received capital assistance through the



President Obama meets with his economic team in August to discuss implementation of Dodd-Frank. Comptroller Curry sits at the far end of the table.

Treasury Department's Targeted Investment Program, and many other institutions received support from other government programs aimed at restoring liquidity and financial stability.

One of the most important lessons of the crisis, therefore, was that both the quantity and the quality of bank capital had to be improved. The Basel Committee on Banking Supervision, an international body of bank supervisors, provided a unified global response to this challenge. Beginning in 2010, the Basel Committee released a series of revisions (referred to as Basel III) to its original capital regulations. Basel III raised the capital charge against risk-weighted assets and established a capital conservation buffer, which required banks to limit their dividend and bonus payouts the closer they came to their mandatory minimum capital.³ Basel III also introduced an international leverage ratio that applies

³ Basel III also established international liquidity standards that incorporate explicit liquidity coverage and funding ratios that are designed to promote the short-term and long-term resilience of large banking organizations' liquidity.

THE OCC MARKS 150 YEARS OF SERVICE TO THE AMERICAN PEOPLE

The national banking legislation of the Civil War era demonstrated the federal government's strengthened commitment to supporting economic growth. The laws also affirmed an optimistic view of America's future. The system's founders foresaw a nation of people freely exchanging goods from their farms and factories across local and state borders, drawing on one another's productive strengths to create a common prosperity. They knew this required a robust financial system, including a uniform currency and banks capable of serving customers wherever they lived, worked, and traveled. The founders, however, also acted to preserve the local character, ownership, and management of national banks. That effort succeeded: Most of the national banks and federal savings associations that the OCC charters and supervises today are community institutions, providing financial services to meet local customers' needs.

"The OCC has a long heritage of public service, regulating and supervising national banks and now federal savings associations. I am especially proud to lead the agency as it achieves this milestone in its distinguished history."

Thomas J. Curry,
30th Comptroller of the Currency,
on the agency's 150th birthday



Comptroller Curry, with OCC staff, honors the OCC's 150th anniversary by ringing the opening bell at the New York Stock Exchange.

The banking laws made the OCC the first federal regulatory agency to have operational independence, which Congress believed was necessary to oversee the national banking system in a professional, nonpartisan manner. Congress also gave the agency independent funding authority outside the budget appropriations process, and since then the OCC has drawn nearly all of its operating income from bank assessments and fees.

The OCC's 150th year was an opportunity for employees to reflect on the agency's past and gain insight regarding its future. The agency invited outside experts to discuss the history of banking and banking supervision, while district offices highlighted key people and events in the OCC's past.

The anniversary was also an opportunity to remind the public about the important role banks play in fueling the nation's economy. The OCC created public service announcements that noted President Lincoln's support for a strong system of national banks and supervisory oversight, and the agency added a commemorative presentation to its Web site, "History: 150 Years of the OCC." The presentation includes a multimedia timeline and profiles of national banks and federal savings associations, focusing on challenges the banks faced in fulfilling the responsibilities of their federal charters.

THEN AND NOW

BANK CAPITAL IN HISTORICAL PERSPECTIVE

The founders of the national banking system considered capital adequacy a critical issue. The shortage—or absence—of capital had been a key reason for the instability of the pre-Civil War banking systems controlled by the states. The new laws remedied this by requiring that banks in cities with populations exceeding 50,000 be able to produce at least \$200,000 in capital, with lower requirements for banks in smaller cities and towns.

a simple unweighted charge against assets and certain off-balance-sheet exposures. Because it incorporates off-balance-sheet exposures, the Basel III leverage ratio exceeds the leverage ratio that applied to all U.S. depository institutions.

Capital enhancement was also among the foremost objectives of Dodd–Frank, which enacted a new regulatory regime for U.S. financial institutions. In this regard, the intentions of Dodd–Frank and Basel III were the same: to improve the quantity and quality of capital held by financial institutions. For example, Dodd–Frank, like Basel III, emphasized the quality of capital by restricting the inclusion of lesser, hybrid instruments like trust preferred securities (TRUPS) in capital calculations for larger banks. Moreover, Dodd–Frank required bank holding companies to meet the same type of capital requirements as depository institutions, and to serve as a “source of strength” for their depository institution subsidiaries.

While Dodd–Frank and Basel III had common objectives, they differed in many details. The OCC, the Federal Reserve Board, and the FDIC were responsible for reconciling these differences for U.S. financial institutions. After considering comments from banks and other stakeholders, the agencies released three separate notices of proposed rulemaking (NPR) in June 2012 to implement the Basel III minimum capital requirements.⁴

By releasing the three NPRs individually, the agencies underscored their differentiated approaches: Although more would be expected of *all* U.S. banks in terms of minimum capital requirements, the new rules would apply primarily to the largest, most complex, and most

systemically important banking institutions and less so to community banks. That did not change the fact that hundreds of community banks had failed during the crisis, or that many others avoided that fate only because they maintained capital in excess of regulatory requirements. Community banks and large banks alike needed strong capital, and the NPRs reflected that fact.⁵

The OCC weighs the potential benefits of all regulations against the burdens they may cause, especially for community banks. So, after careful consideration of public comments, in July the OCC, the Federal Reserve Board, and the FDIC adopted a revised rule that addressed the major concerns expressed by community banks and provided a blueprint for a better-capitalized banking system overall. Specifically, the agencies elected not to adopt a change that would have required banks to increase capital held against residential mortgages, and chose to give community banks a one-time election to exclude from their capital calculations the effects of unrealized securities gains and losses on available-for-sale debt securities. Banks with less than \$15 billion in assets will be permitted to continue to count TRUPS issued before May 19, 2010, as tier 1 capital. The OCC also published a reference guide to help smaller banks understand the new rules and their likely impact.⁶

For the largest banks, the rule includes a countercyclical capital buffer, a new minimum 3 percent supplementary leverage ratio that takes into account off-balance-sheet exposures, and additional capital charges and standards for derivatives exposures. The rule also introduces enhanced

⁴ OCC, *Annual Report Fiscal Year 2012*, p. 19. Unless otherwise noted, all documents cited in this report can be found on the “About the OCC,” “News and Issuances,” or “Publications” pages at www.occ.gov.

⁵ Remarks by Thomas J. Curry, Comptroller of the Currency, American Bankers Association, October 15, 2012.

⁶ OCC, “New Capital Rule Quick Reference Guide for Community Banks,” July 2013.

THEN AND NOW

SUPERVISION BY RISK IN HISTORICAL PERSPECTIVE

Two important steps in the evolution of the OCC's approach to bank supervision occurred in the later decades of the twentieth century. The first was in 1979, when the agency, through the Federal Financial Institutions Examination Council (FFIEC), adopted a uniform ratings system for federally regulated banks, which took its name from the acronym for its component parts, CAMEL. CAMEL identified five distinct categories of risk: capital, asset quality, management, earnings, and liquidity. In 1996, the system became known as CAMELS when sensitivity to market risk was added to the list.

In the 1990s, the OCC formalized a system of risk-based supervision that explicitly ties OCC oversight to the type and degree of risk presented by each national bank. Supervision by risk is focused on evaluating risk, identifying material and emerging problems, and ensuring that individual banks take corrective action before problems compromise their safety and soundness. Supervision by risk is dynamic, responsive to changing risks at individual institutions, and sensitive to evolving market conditions and regulatory changes. It reflects the unique characteristics of each bank.

The founders of the national banking system and the agency's leadership understood that capital—the “C” in CAMELS—was not only an essential buffer against loss but also an affirmation of financial responsibility on the part of bank ownership. That holds true today.

The founders understood that banking was a business built on the fundamentals of deposit taking and loan making, and that a banker's skill in evaluating the potential borrower's capacity to repay, the quality of the customer's collateral, and, therefore, the terms of the loan was integral to the bank's success.

The founders recognized that banks must have sufficient liquid reserves to meet customers' needs for cash and to redeem the banks' obligations, which included the national currency they dispensed as part of the nation's money supply until 1935.

Through the years, examiners have understood that management—the “M” in CAMELS—is the glue that holds a bank together. What today's bank supervisors refer to as *enterprise risk* and *operational risk* are subsets of management's ability to manage risk across the entire organization; ensure the competency and honesty of bank personnel; properly use and safeguard proprietary information and the systems that process it; comply with applicable laws and regulations; and provide for a bank's future through leadership development and strategic planning.

disclosure requirements applicable to the top-tier entity in a banking organization that is domiciled in the United States and has \$50 billion or more in total assets. At the same time, the OCC, the Federal Reserve Board, and the FDIC issued a joint NPR that would add a 6 percent supplementary leverage ratio to the “well-capitalized” capital category of the prompt corrective action regulations for large, interconnected U.S. banks.

“With these new capital rules,” said Comptroller Curry, “the federal banking agencies are taking an important step to strengthen the banking system,” improving the quality and quantity of capital and minimizing the burden on community banks and federal savings associations.⁷

⁷ OCC, “OCC Approves Final Rule on Regulatory Capital; Proposes Doubling Leverage Ratio for the Largest Banks,” news release 2013-110, July 9, 2013.

THEN AND NOW

LIQUIDITY IN HISTORICAL PERSPECTIVE

Before the Civil War, most banks that failed did so for one major reason: They lacked the cash needed to redeem their notes and repay depositors. In that sense, every creditor represented a threat to a bank's solvency. Some insolvent banks relocated, hoping creditors would give up trying to collect.

To protect the public, the authors of the banking acts required big-city national banks to hold in their vaults assets equal to at least 25 percent of the value of their obligations. In addition, the law required all banks to purchase U.S. government bonds as a backstop, exclusively for redeeming notes. National banks thus had not one but two layers of liquidity—liquidity that proved effective in maintaining public confidence in national bank currency and the issuing banks.

The OCC's Commitment to Community Banking

Community banks constitute the overwhelming majority of the institutions under the OCC's supervision. These institutions are crucial to the stability of the communities that depend on them.

Like all banks, community banks have had to work harder for earnings in the slow-growth, low interest rate environment that followed the financial crisis of 2008. Community banks' fortunes are especially tied to the small business community, which has been slower to recover from the recession. The new rules prompted by Dodd-Frank have posed extra challenges for community banks, which often lack the specialized staff available at larger banks to facilitate transition to those rules.⁸ The law and the agencies' rulemakings recognized this by providing special provisions for community banks, including extended implementation schedules and exemptions from rules that did not apply to them.

Recognizing the challenges that community banks face, the OCC provided summaries of the new regulations and conducted dozens of outreach and training sessions to ensure that community bank directors and managers understood what was expected of them. The agency also produced and distributed

new tools designed to help community banks better understand the risks they face.

Among those tools is "A Common Sense Approach to Community Banking," in which the agency summarizes best practices for successful bank management. The publication focuses on three underlying concepts: accurately identifying and appropriately monitoring and managing risk; mapping out a vision and business plan that is communicated throughout the institution; and understanding the OCC's supervisory process.



While community banks face many common challenges, they can be as different from one another as they are from banks a hundred times their size. The OCC recognizes and supports this diversity by adapting its supervisory approach to the unique circumstances of community banks' location, business model, market, and ownership.

Two types of community banks continued to receive special attention from the OCC in 2013. Under Title III of Dodd-Frank, the OCC acquired supervisory responsibility from the former OTS for federal savings associations, including mutual savings associations. One way that the OCC fulfills that responsibility is through the Mutual Savings Association Advisory Committee, which provides information and advice to the OCC on conditions in that sector of the banking

⁸ Remarks by Thomas J. Curry, Independent Community Bankers of America, March 14, 2013.

system and on regulatory changes that support the health and viability of those associations.

The committee, composed of chief executive officers of mutual savings associations of all types, sizes, operating strategies, and geographic areas, held its first meeting under OCC auspices in January.⁹

Minority-owned depository institutions (MDI) also face special challenges. They are often the lifeblood of communities that may have few other banking options. They are key sources of depository services and credit to consumers and small business, which is why the law requires the federal banking agencies to provide these institutions with special support.

In 2013, the OCC established a Minority Depository Institutions Advisory Committee and hosted the first meeting under its auspices in March. The committee brings together senior OCC officials and representatives of minority-owned banks from around the country. The meeting included representatives from the U.S. Small Business Administration and the Treasury Department’s Community Development Financial Institutions Fund to discuss opportunities for productive partnerships and for leveraging federal assistance.¹⁰

MDIs often encounter difficulties raising capital, in part because they are required to limit capital from non-minority sources to preserve their minority status. In June, the OCC revised its policy statement on MDIs to give the agency the discretion to continue to treat institutions as MDIs even when the non-minority investment ownership share exceeds 50 percent. The OCC believes this policy gives MDIs access to new capital, thereby contributing to greater economic opportunities in the communities they serve.¹¹

Stress Testing

An individual bank’s appropriate level of capital cannot be determined solely through the application of

⁹ OCC, “OCC Hosts Mutual Savings Association Advisory Committee Meeting,” news release 2013-80, May 6, 2013.

¹⁰ OCC, “OCC Renews Minority Depository Institutions Advisory Committee, Will Host Inaugural Meeting on March 5,” news release 2013-16, January 25, 2013; remarks by Thomas J. Curry, 2013 Interagency Minority Depository Institutions and CDFI Bank Conference, June 11, 2013.

¹¹ OCC, “Policy Statement on Minority National Banks and Federal Savings Associations,” June 7, 2013. See also remarks by Thomas J. Curry, National Bankers Association, October 3, 2013.



Photo courtesy of Operation HOPE
Comptroller Curry visits the Martin Luther King Jr. National Historic Site in Atlanta, Ga.

a mathematical formula or wholly quantitative criteria. The regulatory minimum capital ratios are standards that address only a subset of the risks faced by banks. The OCC expects banks to maintain capital well above regulatory minimum capital ratios, especially during expansionary periods when, although the economy is growing robustly and bank earnings are strong, the inherent risks in a bank’s operations and balance sheet may be increasing.¹²

Section 165(i) of Dodd–Frank recognized the need to assess how a bank’s risks may be amplified in adverse markets or financial conditions, as occurred during the financial crisis. This section of Dodd–Frank required all federally regulated financial institutions with assets above \$10 billion to conduct an annual company-run stress test, evaluating the sufficiency of a bank’s financial resources and identifying material vulnerabilities under various financial scenarios. Dodd–Frank further required the primary regulators of financial institutions subject to the stress testing requirement to issue “consistent and comparable” regulations that implement the requirements, define the methods for stress testing, and set standards for the reporting and publication of each institution’s stress test results.¹³

The OCC issued the final stress test rule on October 9, 2012. The annual stress test rule applies to banks with more than \$10 billion in assets. The rule required institutions with \$50 billion or more in assets to

¹² OCC, “Guidance for Evaluating Capital Planning and Adequacy,” bulletin 2012-16, June 7, 2012.

¹³ OCC, *Annual Report Fiscal Year 2012*, p. 21.

THEN AND NOW

ASSET QUALITY IN HISTORICAL PERSPECTIVE

One of the thorniest problems for bankers and bank supervisors, past and present, is balancing risk and reward in banks' lending and investment practices. Too much risk and a bank's solvency may be threatened. Too little risk and good business opportunities may be left on the table.

The founders of the national banking system believed that in lending, as in other bank activities, safety took precedence over profits. The national banking laws and regulations reflected that conviction. Comptroller McCulloch's circular letter to bankers in 1863 instructed them to make only well-collateralized, short-term commercial loans, and to avoid all others. He insisted that loans be distributed among borrowers and types of businesses: Large loans to a single individual or firm, he concluded, were "injudicious," and should be discouraged. In their oversight of national banks, McCulloch's examiners did just that. This regulatory rigor helped build confidence in the U.S. financial system.

conduct an annual stress test beginning in fall 2012. Pursuant to the rule, in November 2012, the OCC released macroeconomic stress test scenarios, and institutions with \$50 billion or more in assets conducted stress tests using these scenarios and submitted results to the OCC in January. Institutions with between \$10 billion and \$50 billion in assets were required to begin conducting annual stress tests in fall 2013.

The OCC recognizes that community banks do not need the types of sophisticated stress testing regimes required for larger institutions. The fundamental concepts of stress testing and "what if" analyses, however, can be valuable to banks irrespective of size. The OCC provided guidance to community banks (under \$10 billion) on how they could gain the benefits of stress testing without using sophisticated analysis or outside consultants. On its BankNet Web site, the OCC offers a tool that smaller institutions can use to perform portfolio analysis of their commercial real estate loans.¹⁴

The stress testing regime now being adopted is vital to maintaining the health and stability of the banking system. But stress tests, like any analytic or predictive tool, are no substitute for examiner experience,

training, and insight. The OCC strives to effectively use all of the tools at its disposal in the effort to maintain a safe and sound banking system and a strong economy.¹⁵

Assessing Asset Quality

One of the fundamental purposes of banks is to recycle funds received as deposits into loans. How those loans perform often determines the health of the banks. Thus, assessment of credit quality has always been at the heart of bank supervision.

Credit risk was a key focus of the OCC's *Semiannual Risk Perspective* reports, which synthesize economic data, bank-supplied information, and examiner findings. The reports are a product of the agency's National Risk Committee (NRC), an interdisciplinary group that monitors and reports on risk trends and issues guidance to examiners.¹⁶

The spring 2013 report showed that credit quality generally improved in 2013. Nonperforming loans—those 90 days or more past due—declined for large and small banks. Fewer loans had to be charged off, enabling banks to redeploy resources that would otherwise have gone into reserves to cover loan losses.

¹⁴ OCC, "OCC Announces New Stress Testing Guidance and Commercial Real Estate Stress Test Tool for National Community Banks and Federal Savings Institutions," news release 2012-146, October 18, 2012; OCC, "Community Bank Stress Testing: Supervisory Guidance," bulletin 2012-33, October 18, 2012.

¹⁵ Remarks by Thomas J. Curry, Financial Services Roundtable, September 20, 2012.

¹⁶ OCC, *Semiannual Risk Perspective*, fall 2012 and spring 2013.

The NRC report also pointed to worrisome signs. Loan demand was up less than one would expect in the normal life cycle of economic recoveries, and the demand came primarily from larger rather than smaller borrowers. With diminished profitability, banks tended to take on more risk in search of customers, using less demanding credit underwriting standards, more lenient loan terms, and weaker risk-based pricing, which lead to increased credit risk.

Mortgage Lending



Mortgage lending is another key barometer of the health of banks, consumers, and the general economy. In 2013, there were both positive and negative trends. The performance of first mortgages continued to show signs of improvement. The *OCC Mortgage*

Metrics Report, which tracks the performance of roughly 52 percent of all U.S. mortgages outstanding, showed that 90.6 percent of mortgages were current, compared with 90.2 percent in the previous quarter and 88.7 percent a year earlier. Seriously delinquent mortgages—those 60 or more days past due—fell to 3.8 percent of all mortgages, compared with 4.4 percent a year earlier.¹⁷ House prices stabilized in many markets, erasing negative equity for some homeowners, making consumers feel more confident about their economic prospects and, therefore, making them more likely to borrow and spend.

The outlook for some segments of the mortgage market is cloudier. After a detailed review, OCC examiners found rising risk of default on home equity loans contracted before the financial crisis. Many of these loans had interest-only features, so that borrowers now confront the prospect of substantial negative equity and higher monthly payments. Rising interest rates—which make refinancing more expensive—compound the risk that banks will have difficulty collecting these debts. The increase in interest rates has also dampened demand for mortgage



Associate National Bank Examiner Timothy Boyle and examination technician Altrese Steaman review OCC policies on mortgage lending.

loans, raising questions about the sustainability of the housing recovery.¹⁸

One of Dodd–Frank’s central objectives was to curb abuses in mortgage lending that helped bring on the financial crisis. The act required the Consumer Financial Protection Bureau (CFPB), after consulting with other federal agencies, to adopt rules on mortgage servicing, mortgage disclosures, and the compensation of mortgage loan originators. Dodd–Frank drastically reduced the role of credit rating agencies, whose ratings helped drive demand for subprime mortgage-backed securities.

Dodd–Frank also established stricter requirements for higher-risk mortgages to ensure that appraisals reflect legitimate changes in the market value of those residential properties. For example, a final rule was adopted in January 2013 that implemented an amendment to the Truth in Lending Act’s Regulation Z, requiring the OCC and the other federal regulators to issue a regulation containing specific appraisal requirements for higher-risk mortgage loans. Before a creditor extends credit in the form of a higher-risk loan, the creditor must obtain a written appraisal performed by a licensed or certified appraiser that includes a physical inspection of the property’s interior and is carried out in compliance with the Uniform Standards of Professional Appraisal Practice.

The final rule also requires a second appraisal from a different appraiser if the higher-risk mortgage loan finances the purchase of a property from a seller who

¹⁷ *OCC Mortgage Metrics Report*, second quarter 2013.

¹⁸ Remarks by Darrin Benhart, Deputy Comptroller for Credit and Market Risk, Mortgage Bankers Association’s Risk Management and Quality Assurance Forum, September 11, 2013.

acquired the property for a lower price during the six months prior to the sale. The final rule contains several exemptions from the requirements, including the statutory exemption for qualified mortgages. A supplemental final rule issued in December 2013 includes exemptions that apply to small-dollar loans, manufactured housing, and streamlined refinance transactions.¹⁹

Mortgages and Risk Retention

Dodd–Frank’s section 941 required regulators to ensure that firms bundling mortgage and other loans into asset-backed securities (ABS) retain some of the risk built into the instruments they market, giving them a direct stake in the performance of the underlying loans and better aligning the interests of those who create and market ABS with those of investors, lenders, and borrowers.

The first of the regulatory agencies’ section 941 proposals, which was released for comment early in 2011, called for the firms that securitize mortgages to retain 5 percent of the par value of mortgage-backed securities. It stipulated that qualified residential mortgages (QRM) would be exempt from the risk-retention requirement. The agencies’ proposal defined QRMs as first-lien mortgage loans that were based on sound appraisals and met standards for documentation of the potential borrower’s income, credit history, and ability to repay. The loans also met standards for minimum down payments and maximum loan-to-value ratios. These provisions were intended to make QRMs less likely to go into default.²⁰

A concern frequently expressed in the more than 10,000 comments received by the agencies was that to avoid the risk-retention requirement, lenders would be less willing to make non-qualifying loans. If that were to happen, it could deprive borrowers unable to meet the stringent QRM standards, such as the minimum

20 percent down payment, of the opportunity to own their own homes.²¹

After reviewing these comments, in 2013 the OCC and other federal agencies revised their 2011 proposal to set the requirements for the QRM exemption to be co-extensive with the qualified mortgage (QM) safe harbor established by the CFPB. The proposal also sought comment on whether an alternative that would incorporate additional factors in QRMs, such as borrower credit history and a 70 percent loan-to-value cap, would promote a more vibrant market for loans that do not conform to the QM standard.²²

Allowance for Loan and Lease Losses

Some of the improvement in asset quality since the economic recovery was reflected in banks’ bottom lines, as declining loan losses permitted banks to reduce the reserves they are required to maintain to cover those losses. The pace of allowance reductions, however, exceeded the rate at which banks were charging off loans, leaving them less prepared if economic shock or risks embedded in loan portfolios caused losses to spike. A potential for repayment problems in home equity lending, the sluggish economic recovery at home and abroad, and the reported weakening of credit underwriting standards are also sources of risk that could hurt loan performance and strain the adequacy of reserves.

The OCC highlighted its concerns about loan-loss reserves in a series of outreach efforts that included meetings with bankers and their auditors and speeches by senior agency officials, including Comptroller Curry. The OCC also extended its support in principle to an initiative of the Financial Accounting Standards Board (FASB) to replace the current method for determining reserves, which relies heavily on past performance. The proposed, more forward-looking approach would require banks to use historical information, current conditions, and reasonable and supportable forecasts to estimate expected shortfalls over the life of a loan. The OCC asked the FASB to consider providing relief in the form of reduced disclosure requirements and extended implementation

¹⁹ OCC, “Agencies Issue Final Rule on Appraisals for Higher-Priced Mortgage Loans,” news release 2013-11, January 18, 2013; OCC, “Agencies Issue Proposed Rule to Exempt Subset of Higher-Priced Mortgage Loans From Appraisal Requirements,” news release 2013-111, July 10, 2013.

²⁰ OCC, “Agencies Seek Comment on Risk Retention Proposal,” news release 2011-39, March 31, 2011; OCC, *Annual Report Fiscal Year 2011*, pp. 10–22.

²¹ Testimony of Thomas J. Curry, Committee on Banking, Housing, and Urban Affairs, U.S. Senate, February 14, 2013.

²² OCC, “Agencies Request Comment on Proposed Risk Retention Rule,” news release 2013-128, August 28, 2013.

THEN AND NOW

BANK MANAGEMENT IN HISTORICAL PERSPECTIVE

Some of Comptroller McCulloch's most important decisions concerned the issuance of national bank charters—in particular, how many should be issued and to whom. It was clear to him that when banks competed too aggressively for business, banking standards suffered. Therefore, McCulloch adopted the policy of chartering only as many banks in a given community as he believed the local economy could support.

That policy sometimes meant having to choose between competing charter applicants—typically, existing state banks wishing to convert to national charters or newcomers seeking to establish themselves in the banking business. Politics argued clearly for giving preference to the newcomers: Most state bankers had opposed the creation of the national system and so, some argued, had no claim to its privileges. But McCulloch repeatedly chose experience over expediency. What the new national system needed most, he saw, were managerial skills and business credibility that only professional bankers could bring. Ever since, the OCC has embraced the principle that knowledgeable, responsible management is crucial to the safety and soundness of the banking system.

schedules for community banks, to ease their transition to the new system.²³

Asset Concentrations and Lending Limits

In April 2013, economists from the OCC and the Federal Reserve Board published a study that looked back at the agencies' 2006 supervisory guidance on commercial real estate concentrations. The authors sought to better understand the effect of such concentrations on bank performance during the financial crisis and the recession that followed it, and, by implication, to test whether the agencies' guidance effectively encouraged banks to reduce their commercial real estate concentrations. The economists found a direct correlation between those concentrations and the deterioration and failure of banks that continued to exceed the recommendations. To the authors, the lesson was clear: Concentration limits, whether on specific types of loans or to specific borrowers, are essential to preserving bank safety and soundness.²⁴ The aforementioned stress testing tool that the OCC makes available on its BankNet Web site

was designed to assist community banks in identifying and assessing such concentrations.

In general, the OCC's lending limits rule imposes specified limits on loans and extensions of credit to a single borrower and groups of related borrowers. Section 610 of Dodd–Frank expanded the definition of loans and extensions of credit to include certain derivative instruments, repurchase agreements, reverse repurchase agreements, and securities lending or borrowing transactions. The goal of the revised definition was to prevent depository institutions from making large bets on over-the-counter derivatives that could endanger their capital and viability.²⁵

In August 2013, the OCC issued a final rule to implement section 610, which went into effect on October 1, 2013. The rule minimizes the compliance burden on small and midsize banks by giving them alternatives for measuring the credit exposure inherent in derivative transactions and securities financing transactions. The options permit banks to adopt compliance alternatives that fit their size and risk management requirements, consistent with safety and soundness and the Dodd–Frank goals.²⁶

²³ Remarks by Thomas J. Curry, Risk Management Association's Annual Risk Management Conference, October 29, 2012; remarks by Thomas J. Curry, AICPA Banking Conference, September 16, 2013.

²⁴ Keith Friend, Harry Glenos, and Joseph B. Nichols, OCC, "An Analysis of the Impact of the Commercial Real Estate Concentration Guidance," April 2013.

²⁵ OCC, *Annual Report Fiscal Year 2012*, p. 21.

²⁶ OCC, "OCC Issues Final Rule on Lending Limits," news release 2013-102, June 20, 2013.



Comptroller Curry discusses foreclosure alleviation and other issues with Representative Maxine Waters (D-Calif.), ranking member of the U.S. House Committee on Financial Services.

Assessing Operational Risk

As financial risks have receded, operational risk—the risk of loss due to failures of systems, processes, and people, and to external events—continues to rise. The OCC took steps throughout 2013 to ensure that banks are able to recognize and mitigate those risks.

A number of high-profile enforcement actions in 2013 drove home the importance of strong operational risk management. Several of the country's best-known financial institutions were subject to enforcement actions and CMPs for past operational failures. The OCC and the Federal Reserve Board amended consent orders with the largest mortgage loan servicers, requiring the servicers to pay \$9.3 billion—the largest federal financial settlement action in history. After absorbing more than \$6 billion in losses stemming from failures in governance and management oversight in its derivatives trading activities, JPMorgan Chase was assessed a CMP of \$300 million by the OCC and \$600 million by other banking agencies in the United States and the United Kingdom, plus \$389 million more in fines and remediation for unfair credit card billing practices. In December 2012, the OCC, in coordination with the U.S. Department of Justice and other agencies, assessed a \$500 million CMP against HSBC Bank USA for Bank Secrecy Act violations. The OCC assessed penalties against other banks to correct deficiencies associated with failures in compliance and operations. In addition to the financial costs of these lapses, the losses in credibility

and reputation, for the implicated institutions and the industry at large, were considerable.

Independent Foreclosure Review Agreement

In April 2011, the OCC, the Federal Reserve Board, and the OTS imposed sweeping enforcement actions against 14 large mortgage servicers for unsafe and unsound mortgage servicing and foreclosure practices in 2009 and 2010.

The consent orders had two goals. The first was to fix systemic deficiencies and put standards in place to ensure that future borrowers would be treated fairly and accorded all the protections they were entitled to under the law. The consent orders delineated 97 corrective actions to reform the companies' servicing and foreclosure standards and practices. Specifically, the orders required the servicing companies to tighten oversight and management of third-party service providers, and strengthen their custodial responsibilities for mortgage records, management information systems, risk assessment and management, and compliance oversight. Servicers also were directed to improve communication with borrowers, in part by establishing single points of contact for foreclosure cases. The servicers were further required to develop effective training programs for customer support staff and establish controls to prevent foreclosures from proceeding when a borrower has been approved for a modification on a trial or permanent basis.²⁷

The second goal of the banking agencies' enforcement orders was to establish an Independent Foreclosure Review to identify those who were harmed by the servicers' practices and provide appropriate compensation for their injuries. The orders stipulated that the banks hire independent consultants who would operate under the regulators' oversight to conduct an independent review of these companies' mortgage servicing activities in 2009 and 2010.

After more than a year of effort and no remediation to borrowers, the Comptroller recognized the need to change direction to focus on assisting homeowners more quickly.

On January 7, 2013, the OCC and the Federal Reserve Board announced an agreement, involving 10 of the

²⁷ OCC, *Annual Report Fiscal Year 2012*, pp. 14–15.

14 mortgage servicing companies²⁸ covered by the original enforcement actions, that effectively ended the Independent Foreclosure Review process for those banks. Instead, servicers had to provide \$3.3 billion in direct payments to eligible borrowers and \$5.2 billion in other assistance, such as loan modifications and forgiveness of default judgments. Amended consent orders published in February codified the agreement. Under the revised orders, more than 4.2 million eligible borrowers would receive compensation ranging from hundreds of dollars up to \$125,000, depending on the type of servicer error.²⁹

“We have learned a great deal from the reviews that have been conducted to date,” said Comptroller Curry in announcing the new program. “However, it has become clear that carrying the process through to its conclusion would divert money away from the impacted homeowners and also needlessly delay the dispensation of compensation to affected borrowers.” He said he was confident that the new course of action would “get more money to more people more quickly” and promote healing of the nation’s housing markets.³⁰

Payments under the agreement began being issued in April; by the end of August, checks totaling \$3.6 billion had been distributed to almost all of the 4.2 million eligible borrowers.³¹

Information Security

The information systems that banks and their customers depend on create vulnerabilities that must be intensively monitored and managed. Although politically or criminally motivated cyber-attacks have occurred, the OCC has found that breakdowns in bank information systems frequently were related to more mundane issues: unaddressed maintenance items;

failure to make necessary hardware and software upgrades; and management inattention. Recession-related cost cutting affected many information technology departments, leading managers to outsource more of that work to third parties in the hope of realizing savings. The OCC recognizes that outsourcing makes sense for many banks—it may be the only economically feasible course for some community banks—but emphasizes that banks remain wholly responsible for any compliance and quality control issues that arise from their third-party relationships.

In 2013, banks saw a particular increase in denial-of-service attacks, in which computer servers are deliberately overwhelmed with incoming traffic to disrupt communications with customers and business systems. These attacks were a reminder of the need for constant vigilance to ensure that bank management addresses vulnerabilities and maintains bank systems in the highest state of readiness to thwart future attacks.

Internet security relies heavily on cooperation between the public and private sectors. As the new chairman of the Federal Financial Institutions Examination Council (FFIEC), a two-year position he assumed in April, Comptroller Curry spearheaded the formation of an interagency working group charged with coordinating with intelligence, law enforcement, and homeland security officials to fight existing and emerging Internet threats. The working group is considering ways to improve coordination of supervisory policies relating to cybersecurity and infrastructure resilience and whether additional legislative authority is needed to address security threats.

For its part, the OCC strengthened its ability to serve as a resource to industry and government in the effort to combat Internet crime directed at banks, particularly smaller, under-resourced institutions whose systems may be relatively unguarded and, therefore, more susceptible to intrusion. The agency organized a Web conference, “The Evolving Cyber Landscape: Awareness, Preparedness, and Strategy for Community Banks,” for more than 1,000 community bankers.³² The agency also created and filled a new position, Senior Infrastructure Officer.

²⁸ Two servicers were added to the original consent order; four later became parties to the January agreement; and one signed a separate agreement in August providing for some \$33.3 million in borrower compensation and assistance.

²⁹ OCC, “Independent Foreclosure Review to Provide \$3.3 Billion in Payments, \$5.2 Billion in Mortgage Assistance,” news release 2013-3, January 7, 2013. The agreement was amended in February to raise both the original number of eligible borrowers and the total amount of compensation due them. OCC, “Amendments to Consent Orders Memorialize \$9.3 Billion Foreclosure Agreement,” news release 2013-35, February 28, 2013.

³⁰ OCC, “Statement from Comptroller of the Currency Thomas J. Curry on the IFR Settlement,” news release 2013-4, January 7, 2013. See also remarks by Thomas J. Curry, Women in Housing and Finance, February 13, 2013.

³¹ “Correcting Foreclosure Practices,” updated September 19, 2013.

³² OCC, “OCC Holds Web Conference for Community Banks on Cyber Threats,” news release 2013-96, June 12, 2013.



Comptroller Curry testifies before the U.S. Senate Committee on Banking, Housing, and Urban Affairs on OCC efforts to ensure industry compliance with the Bank Secrecy Act.

The agency held a series of confidential briefings for banks, third-party service providers, and bank examiners. It issued an alert on denial-of-service attacks and is reviewing examiner handbooks, procedures, and training materials to ensure that, as threats evolve, all banks and federal savings associations can identify cyber risks and strengthen their risk management and control systems.³³ In addition, the OCC became a member of the Financial Services Information Sharing and Analysis Center in 2013. This is an intelligence operations center providing around-the-clock monitoring of cyber and other threats to the financial services industry. Membership gives the OCC greater real-time insight into a broad range of potential threats to the industry and the ability to assist, when appropriate, in a coordinated response with other government agencies.

Enforcing the Bank Secrecy Act

Banks require strong internal controls to prevent criminals from using banks to launder profits from illegal activities or funnel cash into the hands of terrorists for hostile purposes. Criminals can take advantage of profit pressures that tempt bank officers to cut corners or ignore suspicious transactions; the advent of relatively simple, inexpensive tools that make it possible to infiltrate bank systems undetected; and the simple fact that no safeguard, physical or technological, can ever be absolutely effective.

The Bank Secrecy Act (BSA), enacted in 1970, is one of the country's most powerful weapons against such

criminal activity. The act requires banks to maintain records and file suspicious activity reports (SAR) and other reports that law enforcement and regulators use in combating money laundering and other financial crimes. The BSA has become an invaluable preventative and investigative tool in the country's overall law enforcement and homeland security programs. There are now more than 5.6 million SARs in the centralized database maintained by the Financial Crimes Enforcement Network (FinCEN), a bureau of the Treasury Department that collects and analyzes information about bank transactions for use by law enforcement.

The BSA has always been a challenging law for banks to implement and for regulators to enforce. It requires banks to sift through vast numbers of transactions to spot those with suspicious characteristics. It pits banks against resourceful adversaries who are quick to change tactics when they sense the possibility of exposure. As criminals refine their techniques, banks have to refine their own to maintain the security of the financial system.

An effective BSA program requires banks to create a culture of accountability within the organization. Compensation structures, promotions, performance standards, and job descriptions should include and consider BSA responsibilities, obligations, and performance, and reflect a "culture of compliance" in which BSA compliance is a priority for the organization. The extent of a BSA program must be commensurate with the bank's size, complexity, and overall risk profile.

Finally, the most successful BSA programs ensure that banks carefully monitor their relationships with payment processors and third-party providers, take BSA considerations into account in the development and introduction of new payment technologies, and recognize the shifting nature of the money laundering threat.³⁴

The banks that the OCC cited for major BSA deficiencies in 2013 lacked one or more of these attributes. In one case, the OCC issued a cease and desist order when it determined that the bank's BSA compliance program had critical deficiencies with

³³ Remarks by Thomas J. Curry, Exchequer Club, September 18, 2013.

³⁴ Testimony of Thomas J. Curry, Committee on Banking, Housing, and Urban Affairs, U.S. Senate, March 7, 2013.

THE COMMUNITY REINVESTMENT ACT: A POWERFUL TOOL

After the financial crisis, the argument was sometimes heard that loans made with the intention of qualifying for credit under the Community Reinvestment Act (CRA) tended to be more poorly underwritten, and, therefore, more likely to become delinquent, than others. Research has shown, however, that those loans performed no worse—and in some cases performed better—than those with no CRA connection.

A more valid concern is whether the CRA continues to be relevant in a changing financial world. The law, which dates to 1977, was written at a time when banks needed a physical presence to serve their customers, draw deposits, and make loans. Since the OCC, the Federal Reserve Board and the FDIC last updated their CRA guidance in 1995, these questions have taken on added urgency: Should a bank whose deposits come from beyond its branch-based assessment area have CRA responsibilities in those outlying areas? What changes are needed to increase community development lending and investment in rural areas and small towns beyond a bank's assessment area? Should CRA obligations extend to non-banks and holding company affiliates and subsidiaries?

Public hearings in cities around the country focused on these matters in 2013. In March, the three federal banking agencies proposed new questions and answers (Q&A) to guide institutions subject to the CRA. The proposed Q&A explains the CRA considerations of investments in nationwide funds and how to document them. The guidance, issued in final form in November 2013, clarifies the consideration given to certain community development services, and it defines how regulators will treat qualified investments to organizations that use only a portion of the investment to support a community development purpose.³⁵ As the OCC and other banking regulators adopt the new guidance, the agencies will revise examination procedures and conduct examiner



Comptroller Curry and OCC Community Affairs staff visit the historic Tivoli Theatre in Washington, D.C. The theater was renovated with the help of financial support provided under the OCC's public welfare investment authority.

training programs to ensure the rules are applied consistently.

“Since its enactment in 1977, the Community Reinvestment Act has served as a bridge that links financial institutions with community stakeholders,” Comptroller Curry said. The OCC is helping to strengthen those bonds.

³⁵ OCC, “Agencies Release Proposed Revisions to Interagency Questions and Answers Regarding Community Reinvestment,” news release 2013-47, March 18, 2013; OCC, “Agencies Release Final Revisions to Interagency Questions and Answers Regarding Community Reinvestment,” news release 2013-176, November 15, 2013.

respect to suspicious activity reporting, monitoring transactions, conducting customer due diligence and risk assessment, and implementing adequate systems of internal controls and independent testing.³⁶ In another case, the OCC assessed a \$37.5 million penalty against a bank for failing to file SARs on activity in accounts that were used to support a \$1.2 billion Ponzi scheme, despite numerous alerts generated by those accounts.³⁷ In a third case, the OCC assessed a \$4.1 million penalty against a bank that had failed to file SARs in connection with its relationship with several international money exchanges.³⁸

In testimony before the U.S. Senate Committee on Banking, Housing, and Urban Affairs, Comptroller Curry described the OCC's approach to Bank Secrecy Act and anti-money laundering (BSA/AML) supervision and outlined a series of steps to make it stronger. Those steps include

- the formation of a senior-level oversight committee to review high-profile and complex BSA/AML enforcement matters.
- ensuring that examiners factor the quality of a bank's BSA/AML compliance into their assessment of the management component of a bank's CAMELS rating.
- clarifying the operation of the OCC's BSA Large Bank Review Team to ensure a sound and timely action when a bank has multiple MRAs, or apparent violations of its BSA/AML program.
- providing examiners with greater flexibility to cite violations based on fundamental deficiencies in banks' BSA/AML programs.

Furthermore, the OCC expressed its support for legislative changes that would strengthen the statutory safe harbor from civil liability for banks that file SARs, and expand the scope of the safe harbor for banks that share information concerning potential crimes and suspicious activity.³⁹

³⁶ OCC, "OCC Issues Cease and Desist Order Against JPMorgan Chase, N.A., Related to Bank Secrecy Act/Anti-Money Laundering," news release 2013-8, January 14, 2013.

³⁷ OCC, "OCC Assesses \$37,500,000 Penalty Against TD Bank, N.A., for Failures to File Suspicious Activity Reports," news release 2013-145, September 23, 2013.

³⁸ OCC, "OCC Assesses \$4.1 Million Civil Money Penalty Against Saddle River Valley Bank for Bank Secrecy Act Violations," news release 2013-147, September 24, 2013.

³⁹ Testimony of Thomas J. Curry, Committee on Banking, Housing, and Urban Affairs, U.S. Senate, March 7, 2013.



Consumer Protection

Although Dodd–Frank's creation of the CFPB changed how many consumer financial services are regulated, the OCC retained a number of its consumer-related responsibilities. Under Dodd–Frank, the OCC continues to oversee bank compliance with the Flood Disaster Protection Act, the Community Reinvestment Act, and the Servicemembers Civil Relief Act. The OCC also continues to be responsible for examining all areas of consumer compliance for banks with \$10 billion in assets or less, a cut-off that covers the great majority of banks in the United States.

In other areas, such as credit card and mortgage lending, OCC authority overlaps with that of the CFPB. The two agencies have made important strides toward coordinating their credit card examinations, with the OCC focusing on risk to the institution while the CFPB looks at risk to the consumer. Similar arrangements are contemplated in other areas in which the two agencies have common responsibilities, such as Equal Credit Opportunity Act and Fair Housing Act enforcement. "I think of the OCC—and the other bank regulatory agencies—as the general practitioner," Comptroller Curry explained, with "the CFPB as the specialist." The health of the financial system depends on close cooperation among all the agencies that have a hand in its care, and the OCC is working hard to promote that cooperation.⁴⁰

⁴⁰ Remarks by Thomas J. Curry, FFIEC Consumer Compliance Specialists Conference, January 30, 2013.

A CONTINUING COMMITMENT TO DIVERSITY

Year after year, the OCC appears high on the list of best places to work in the federal government. This ranking both reflects and solidifies the OCC's reputation for having one of the government's most competent and accomplished workforces. The agency gets particularly high marks for its support of diversity. This is partly a tribute to the effectiveness of the OCC's Office of Minority and Women Inclusion (OMWI). Under Dodd-Frank, each of the federal financial agencies is required to establish such an office to monitor the diversity efforts of the agency, the regulated entities, and agency contractors.

The OCC's commitment to diversity hiring focuses not only on gender, race, and ethnicity, but also on bringing different viewpoints and approaches to problem solving. A diverse workforce enables the OCC to respond better to changes in the financial services industry, particularly its globalization. Ultimately, the OCC embraces diversity because it makes the agency a better supervisor of the federal banking system.

At the end of 2012, the agency's permanent workforce was 46 percent female and 31 percent minority, on par with the national civilian labor force. When the agency dug behind the numbers, however, it found areas in which it could improve: recruiting and retaining female bank examiners, encouraging the hiring of more Hispanics in nonexaminer areas, elevating more women and minorities into supervisory and higher grade-level positions, and recruiting and retaining more individuals with disabilities.

One way the OCC worked to meet minority recruitment goals was to diversify the pool of applicants from which the OCC fills vacancies. The agency established partnerships with organizations that work to recruit minority students, and in 2013 the agency expanded its National Diversity Internship Program, which gives high-achieving college students the opportunity to learn more about public service in general and the OCC in particular. The hope is that students who choose



Joyce Cofield, Executive Director, Office of Minority and Women Inclusion

careers in government will consider employment with the OCC.⁴¹

Another pillar of the agency's diversity commitment is ensuring that small businesses, especially minority-owned and woman-owned small businesses, receive full consideration for government contracts. More than 60 percent of OCC awards went to small businesses in 2013. Dodd-Frank requires that agencies put in place standards and procedures that commit contractors to demonstrating good faith efforts to ensure diversity of their workforces. OMWI monitors the OCC's compliance with this provision for all agency contracts valued in excess of \$150,000. Dodd-Frank also calls on the OCC and other federal financial regulators to issue standards for assessing regulated institutions' diversity policies and practices. The agencies published joint standards for comment in October 2013.

⁴¹ OCC, "OCC Provides Summer Experience to Minority and Women Interns," news release 2013-121, August 7, 2013.

As Comptroller Curry pointed out in a speech to a group of agency compliance specialists, “safety and soundness depends critically upon fair treatment of consumers. Once a financial institution loses the confidence and trust of its customers, it has placed its future in jeopardy. And once it is lost, confidence is very hard to win back.”⁴² The OCC is no less committed to ensuring that the institutions it supervises fully comply with applicable consumer protection laws than it was before the CFPB was created.

The OCC demonstrated this commitment in various ways in 2013. In April, the agency issued proposed guidance related to deposit advance products—small dollar, short-term loans that a bank makes available to a customer with recurring direct deposits. A deposit advance loan is repaid from the proceeds of the customer’s next direct deposit. These loans typically have high fees, are repaid in a lump sum in advance of the customer’s other bills, and often do not consider the customer’s ability to repay the loan while still meeting other financial obligations. These loans have a legitimate purpose, but they also pose credit, compliance, legal, and reputation risks that are addressed in the proposed guidance. The OCC issued the final guidance in November 2013.⁴³

The agency also took aggressive steps to curtail unsafe and unsound retail debt collection practices, such as inaccurate court filings, improperly notarized documents, and false attestations to the accuracy of sworn documents.⁴⁴ The OCC concluded two major enforcement actions against banks found to have engaged in these practices, both of them requiring correction of the deficiencies in the banks’ practices and restitution to affected customers. Through these actions, the OCC made it clear that banks must effectively manage the operational and reputation risk

inherent in debt collection and the sale of charged-off debt, and treat their customers fairly.⁴⁵

‘Heightened Expectations’ for Corporate Governance and Oversight

The experience of the financial crisis demonstrated the need to raise supervisory expectations for corporate governance and oversight. In response, the OCC adopted a program of “heightened expectations” for corporate governance and oversight in the largest, most complex institutions.

The OCC’s heightened expectations require boards of directors to understand and properly manage the risks undertaken by their institutions. Independent directors must have the expertise and tools to challenge management when necessary. The OCC looks to board members to set the tone for enterprise-wide professional standards, corporate values, and integrity.⁴⁶ The OCC also expects banks to institute and follow a rigorous process to ensure that banks are attracting and retaining the kind of talent they need to manage their businesses in a safe and sound manner.

Under these heightened expectations, only those banks with “strong” audit and risk management functions will meet OCC standards.⁴⁷ “Strong” risk management functions provide bank leadership with the information necessary to verify that the bank’s predefined policies and procedures regarding risk are being followed. “Strong” internal audit programs under the OCC’s heightened expectations are those that are highly anticipatory and systemically focused. The OCC expects bank leaders to implement these procedures not only because strong audit and risk management are required by regulation, but also because trust and integrity are fundamental to the business of banking.⁴⁸

The agency expects senior bank managers to establish their banks’ appetite for risk in every area of the

⁴² Remarks by Thomas J. Curry, FFIEC Consumer Compliance Specialists Conference, January 30, 2013.

⁴³ OCC, “Office of the Comptroller of the Currency Releases Guidance on Deposit Advance Products,” news release 2013-69, April 25, 2013; OCC, “Office of the Comptroller of the Currency Releases Final Guidance Regarding Deposit Advance Products,” news release 2013-182, November 21, 2013.

⁴⁴ “Shining a Light on the Consumer Debt Industry,” OCC Statement to the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, July 17, 2013.

⁴⁵ “OCC Assesses Civil Money Penalty Against American Express, Orders \$6 Million in Restitution,” news release 2012-137, October 1, 2012; “OCC Takes Action Against JPMC to Protect Consumers and to Ensure Servicemembers Receive Credit Protections for Their Non-Home Loans,” news release 2013-139, September 19, 2013.

⁴⁶ On the role of bank directors, see remarks by Thomas J. Curry, Bank Director: Acquire or Be Acquired Conference, January 28, 2013.

⁴⁷ Remarks by Thomas J. Curry, The Clearing House, November 15, 2012.

⁴⁸ Remarks by Thomas J. Curry, Manhattan College, April 30, 2013.



banks' activities, to disseminate those tolerance structures widely to business units, and to hold those units accountable if limits are exceeded. The agency expects banks to have strong processes in place for establishing and communicating company risk profiles.

The OCC has also made it clear that management and boards of directors must fulfill their fiduciary responsibility to protect the sanctity of the federal bank charter, recognizing that the charter provides the unique benefits of a gateway to federal deposit insurance and access to the resources of the Federal Reserve System. The bank formed under that charter must not be treated as a mere tool of corporate convenience or as a booking entity for the holding company that controls it. The OCC is now formalizing these expectations by turning them into enforceable standards.⁴⁹

OCC Self-Assessment and Self-Improvement

Over 150 years, the OCC has developed a unique culture of integrity, professionalism, independence, and teamwork. Professionalism demands honest self-scrutiny and the obligation to study and learn from the agency's mistakes as well as its successes. In 2013, the OCC was immersed in reviewing its capabilities and limitations, applying to itself the same high standards of enterprise risk management that the agency demands of the institutions it supervises. Teams of OCC experts worked on the eight key elements of the agency's Strategic Initiatives. Led by at least one senior OCC manager, each team pursued different goals:

- **Aligning:** Improving the alignment of retention, recruitment, and training programs with agency needs.

⁴⁹ Remarks by Thomas J. Curry, 49th Annual Conference on Bank Structure and Competition, May 9, 2013.

- **Supervising:** Developing enhanced analytic capabilities, improving interdisciplinary and interagency teamwork, and developing a robust capacity for self-assessment.
- **Leading:** Developing improved succession plans, leadership training programs, and new strategies to encourage strategic thinking.
- **Funding:** Moving toward more diversified agency funding and strengthening the agency’s financial stewardship.
- **Connecting:** Developing a comprehensive, proactive agency approach to address information technology needs.
- **Engaging:** Enhancing morale and shared sense of purpose through improved internal communications.
- **Messaging:** Sharpening the agency’s message to outside stakeholders.
- **Assessing:** Building consistent and disciplined processes for self-assessment and improvement.

With regard to the assessing initiative, the OCC’s Enterprise Governance Unit was charged with conducting independent reviews—structured like a bank examination—of each OCC line of business. If deficiencies are identified, the unit will issue an MRA order, which will be monitored and tracked for completion.⁵⁰

To reinforce the high degree of importance that the OCC places on enterprise governance, the Comptroller elevated the leader of the Enterprise Governance Unit,



Larry L. Hattix

Ombudsman’s Office, in 1993. The office’s success later prompted Congress to require that the other banking agencies establish internal appellate processes as well.

As the fiscal year ended, the agency launched an initiative designed to test and refine its approach to large and midsize bank supervision. The agency assembled a team of current and former senior supervisors from across the globe to assess the OCC’s supervisory practices relative to other countries to determine what worked well, what worked less well, and what did not work at all during the financial crisis. The OCC looks forward to learning from those experiences, as it seeks to build a future as distinguished as its 150-year past.

veteran National Bank Examiner Larry L. Hattix, to the agency’s Executive Committee. Mr. Hattix has been the agency’s Ombudsman since 2008, and he continues to serve in that capacity, providing banks with an avenue to appeal supervisory decisions.⁵¹ The OCC was the first federal banking agency to create an

⁵⁰ Remarks by Thomas J. Curry, American Banker Regulatory Symposium, September 23, 2013.

⁵¹ OCC, “Larry Hattix Named Senior Deputy Comptroller for Enterprise Governance and Ombudsman,” news release 2013-26, February 7, 2013. See also OCC, “Report From the Office of the Ombudsman, 2008–2012 Highlights,” April 2013.

Section Two

People in OCC History

Abraham Lincoln, Father of the National Banking System



Abraham Lincoln had been a vocal supporter of proposals for a sound money supply and a well-regulated banking system dating back to the 1830s, when he was a member of the Illinois legislature. As President, he had the opportunity to make this vision a reality.

As his personal secretary noted, Lincoln “frequently consulted” with his Secretary of the Treasury, Salmon P. Chase, to figure out what would be in a banking bill and how to move it through Congress. They knew this would not be easy. State bankers objected to the federalization of banking, and many lawmakers were uncomfortable with the centralization of economic power that the bill seemed to promise. But the administration overcame their objections. Wavering lawmakers were persuaded by the argument that the National Currency Act was necessary to stimulate the sale of government bonds and ensure that the Civil War troops in the field were fed and paid.

Lincoln also used his influence to gain passage of the measure. On the night before the final U.S. Senate vote, the president dispatched one of his private secretaries to Capitol Hill, seeking to placate two senators hostile to the bill. The next day, both voted in favor of the National Currency Act, giving it a two-vote margin of victory. Fittingly, Senate passage of the bill took place on February 12, 1863—Lincoln’s birthday.

After he signed the bill into law, Lincoln elaborated on what the national banking system meant to the country. The “national system,” he told an audience in 1864, was to be a “reliable and permanent influence” and a “great benefit” to the country. At last, he said on another occasion, the American people would have “a currency as safe as their own government”—and a banking system they could rely on.

This prediction has been amply fulfilled over the past 150 years.

Hugh McCulloch, First Comptroller



When the National Currency Act became law on February 25, 1863, Hugh McCulloch, President of the State Bank of Indiana, wrote to his wife, Susan, saying that, after having worked industriously, though in vain, to defeat that measure, “he had nothing more to do and would take a rest.”

With that, the McCullochs headed off on a vacation tour of the big cities of the East, leaving no forwarding address, “in order that we might enjoy a few genuine holidays.” Their least favorite stop was Washington. Susan wrote that the capital city had an “unfinished” look to it and she found the food at one establishment “abominable.” “We did not call upon a single acquaintance in the city,” she recalled in her memoirs, “but were glad to leave Washington behind us.”

They celebrated their 25th wedding anniversary in Hartford, Conn., and then traveled on to Boston, Mass., to Kennebunk, Maine (Hugh’s birthplace), and to

Plattsburgh, N.Y. A number of telegrams were waiting there, apparently following him from city to city. One was from Chase, the Treasury Secretary, offering him the position of Comptroller of the Currency.

McCulloch pondered Chase's offer as he and Susan traveled to New York City, the final stop in their grand tour. There McCulloch encountered a longtime friend, the Governor of Indiana, Oliver P. Morton.

"Where have you been?" Morton exclaimed. "[Vice President Schuyler] Colfax and Chase have been telegraphing for you all over the country. They want you to take charge of the new Currency Bureau."

"I can't do it," said McCulloch. "I want a rest, I am tired."

"Oh, I guess you will have to," the Governor replied. "They all want you and no one else."

That was only half true. Several other men had been offered the job, and all had declined it. Like McCulloch, they were uncomfortable with the notion of the federal government operating in competition with the state banks. McCulloch was afraid that the prestige of the national bank charter, the lure of the uniform currency that the act empowered them to issue, and the greater safety and soundness of national banks under federal supervision would doom the state banks, including the Indiana state bank that he headed.

But the more McCulloch reflected on the National Currency Act, the more he became convinced of its necessity. McCulloch, like nearly all northern bankers, was a strong supporter of the Union cause, which was suffering from a lack of funding. At a time when millions of Americans were making enormous sacrifices for the war effort, McCulloch believed that the government "had a right to any services that I might be able to render in the tremendous struggle in which it was engaged."

Although she was no more enthusiastic about moving to Washington than he was, Susan advised her husband to take the position, with the understanding that he would remain in office "no longer than might be necessary to give the new banking system a successful start."

McCulloch's son, Charlie, also urged him to accept Chase's offer: "Father, I think it is your duty to go. The country is in the midst of a great war, the finances are in a very confused condition, and now you really ought to go to take care of the finances from patriotic motives."

With his family behind him, McCulloch resolved to "go on and see Mr. Chase and talk it over with him and then if I think right on the whole, after due consideration, I will take the position." And he did.

So, on May 9, 1863, Comptroller McCulloch, Deputy Comptroller Samuel T. Howard, and two clerks, Miss John and Miss Wilson, went to work establishing the National Currency Bureau—or as we now know it, the Office of the Comptroller of the Currency.

Charles G. Dawes, Comptroller of Many Talents



In the list of great Americans who served as Comptroller of the Currency, none stands out more than Charles G. Dawes. Of distinguished lineage—his ancestors were among the founders of the Massachusetts Bay Colony—Dawes was a man of enormous and varied talents: lawyer, engineer, scholar, financier, musician,

businessman, diplomat, and politician.

Dawes was only 33 in 1897, when President William McKinley named him the 10th Comptroller. But he had already built a reputation as a leading student of U.S. financial history, largely on the strength of his book, *The Banking System of the United States*, which was published in 1894. It was the first of nine books that he wrote.

Dawes served an abbreviated term as Comptroller. But his tenure came at a critical time for the national banking system, which was still recovering from the Panic of 1893. Dawes proposed a series of measures designed to bring depositors back into the banks and increase the availability of banking services in smaller

communities that had long gone without them. He also took steps to strengthen OCC supervision, which he saw as essential to restoring public confidence in the banks.

When Dawes left the OCC, he was only 36, and his most important achievements were still ahead. He founded and ran a major financial institution, the Central Trust Company of Illinois. He enlisted in the Army when the United States entered World War I, and quickly distinguished himself as a master of organization and logistics. After the war, he developed a plan to facilitate the payment of reparations from Germany to the victorious allies—a plan that bore his name and won him a share of the 1925 Nobel Peace Prize.

He was elected Vice President of the United States on the Coolidge ticket in 1924, and after leaving office four years later, he was appointed Ambassador to Great Britain by President Herbert Hoover. He later served as a U.S. delegate to various international conferences and as chairman of the Reconstruction Finance Corporation, a government agency created in 1932 to make emergency loans to financial, industrial, and agricultural institutions during the Great Depression.

But Dawes's talents and interests did not end with his stellar public service career. His first love was music. Visitors to his home near Chicago, Ill., would often find him at the piano, plunking out tunes and composing a few of his own. He was particularly proud of a melody in the key of A, which he shared one day in 1911 with a musician friend. Months later, while strolling down State Street, he was shocked to see in the window of a music shop "a poster-size picture of myself, my name plastered all over the window in large letters and the window space entirely filled with the sheet music."

The tune had become a hit—much to Dawes's consternation. He was afraid he would be taken less seriously as a banker and politician. But music often has a life of its own, and Dawes's "Melody in

A Major" has had a long life in various guises: as a cadenza in the repertoire of classical violinist Fritz Kreisler, in versions for orchestra, and, with lyrics and a new title, "It's All in the Game," as a number one hit song for vocalist Tommy Edwards in 1958.

Charles Gates Dawes died at his home in Evanston, Ill., at the age of 86.

Adelia M. Stewart, National Bank Examiner



Born in 1866, Adelia M. Stewart was still a child when her family moved 200 miles inland from her birthplace, Oshkosh, Wis., to Chippewa Falls. At the age of 25, she left home for the bright lights and employment opportunities in Chicago. There she took and passed the federal civil service exam and accepted a position as a clerk in the OCC's Washington, D.C., headquarters. Her salary was \$45 a week—much lower than men were paid for comparable work.

Sometime around 1905, Stewart began evening study at the Washington College of Law, which had been established in the 1890s as one of the country's first law schools for women. The school, and the idea of female attorneys, was slow to gain acceptance. She was one of only two women among the 153 attorneys admitted to the D.C. bar in 1914. In 1921, after passing the qualifying test with the highest grades, Stewart received her commission as a National Bank Examiner—the first female bank examiner in the OCC's history. A year later, she was appointed chief of the OCC's examining division.

During her 44 years of government service, Stewart served 11 Comptrollers of the Currency. She also served as a model of dedication and professional success that inspired countless others.

James J. Saxon, War Hero and Comptroller



Growing up on the streets of Toledo, Ohio, young Jimmy Saxon was no fighter. While the other neighborhood kids roughhoused, Jimmy would watch from a safe distance, seated on the handkerchief he neatly laid out on the sidewalk to avoid dirtying his trousers.

The fastidious part of him never changed. But the pugnacious part did.

After abandoning his plan to study for the priesthood, Saxon moved to Washington, D.C., doing graduate work in economics at night and working as an analyst at the OCC during the day, a job arranged for him by his district congressman.

By 1940, however, the country was mobilizing for involvement in the war that had already engulfed Europe. With his financial expertise, Saxon transferred to the new Office of Foreign Funds Control, whose job was to identify assets belonging to potential enemies. He was on duty in the Philippines, then an American protectorate, when Japanese bombs rained on Pearl Harbor and the Japanese army began its push into the South Pacific. Manila, the Philippine capital,

came under siege and Saxon received the order to seize Japanese-owned cash, securities, and gold—nearly six tons of it—and flee to Corregidor Island, just off the coast, before the enemy arrived.

It was not long before Corregidor itself was surrounded. With the enemy closing in, Saxon and his compatriots burned the cash and securities in a gigantic bonfire, unfortunately also attracting Japanese gunners in the process.

The gold required special treatment. Throughout the moonless nights of February 4 and 5, 1942, a team led by Saxon loaded the bullion onto the submarine USS Trout, bound for Hawaii. Saxon and the others made their escape aboard another submarine and finally arrived in San Francisco on April 1. The man who had burned millions in currency and secreted out millions in gold had to wire home for \$200 to cover his travel back to Washington. The Philippines episode turned out to be the first of many wartime exploits that took Saxon to Hawaii, the Caribbean, Spain, North Africa, and Scandinavia.

His wartime experience helped transform Saxon from an academic into an activist, to someone who took his battles personally and pursued them with zeal. As the 21st Comptroller of the Currency, appointed by President Kennedy in 1961, Saxon used his authority to fight for a more competitive national banking system and a more professional OCC.

Section Three

Condition of the Federal Banking System

Summary

Profitability at banks moved to a new post-crisis high in the first half of calendar year 2013,⁵² on the strength of higher noninterest income, lower provisions, and lower noninterest expenses. Net interest income edged down, however, as modest growth in loan volume failed to offset pressure on loan yields because of the unprecedented low interest rate climate. Credit quality continued to improve, with charge-off rates for all major loan categories except residential real estate running below their long-run averages.

Discussion

For the first half of calendar year 2013, net income at OCC-supervised banks increased by \$11.7 billion compared with a year earlier. Profitability as measured by return on equity stood at 10.6 percent for the second quarter, well above the 8.8 percent posted a year earlier, but still below pre-crisis levels (i.e., the roughly 15-year period before the crisis). Profitability continues to improve for OCC-supervised institutions of all sizes, though the pace of improvement has lagged at community institutions with assets less than \$10 billion. The factors boosting earnings thus far, mainly falling loan loss provisions and cost cutting, are not likely to be sustainable sources of profit growth.

Operating profit. Pre-provision net revenues rose by \$12.2 billion (14.1 percent) in the first half of 2013 compared with a year earlier, as noninterest income rose by \$9.3 billion, noninterest expense fell by

\$6.2 billion, and net interest income fell by \$3.4 billion. A \$6.5 billion drop in provision expenses also boosted pre-tax net income.

The sources of improvement are not likely to last. For example, half of the gain in noninterest income came from just two of the largest banks, and much of the decline in noninterest expense came from a one-time improvement at one large bank. Loan loss provisions, which have been declining since 2009, are at half the level of net charge-offs, draining the allowance for loan and lease losses. As a share of total loans, provisions are almost back to their modern low point last seen in 1994–1995 and thus may not have much more room to fall.

Pressure is likely to continue on net interest income, the main source of revenue for most banks. Loan volume is finally growing again, but in the first half of 2013 declining loan yields (due to the low interest rate climate) more than offset slightly higher loan volume for the federal banking system as a whole.

Smaller banks, those with assets under \$10 billion, are most affected by the weak economic expansion and low interest rate climate. They have not been as successful as their larger peers in reducing noninterest expenses. Indeed, even for many small banks with robust loan growth, the low interest rate climate is producing rates of revenue growth that are subpar relative to their own experience. If not for notable declines in provisions, their net income would not be improving.

⁵² Only data for the first half of calendar year 2013 were available by publication deadline. This section of the *Annual Report* presents consolidated data for national banks and federal savings associations, reflecting the expansion of the OCC's mission under Dodd–Frank.

Loan performance. Loan performance has improved steadily over the past four years. Charge-off rates declined again for all major loan categories in the first half of 2013 compared with a year earlier. Only home equity lines of credit still show charge-off rates

noticeably above their post-1990 average. Home equity line of credit loss rates will likely increase from current levels over the next several years, as many borrowers must begin repaying principal.

Section Four

OCC Leadership

Thomas J. Curry Comptroller of the Currency



Thomas J. Curry was sworn in as the 30th Comptroller of the Currency on April 9, 2012. The Comptroller of the Currency is the administrator of the federal banking system and chief officer of the OCC. The OCC supervises 1,817 national banks and federal

savings associations, including 48 federal branches and agencies of foreign banks in the United States. These institutions compose nearly two-thirds of the assets of the commercial banking system.

The Comptroller also is a Director of the FDIC and NeighborWorks America. On April 1, 2013, he was named Chairman of the FFIEC for a two-year term.

He is the 21st FFIEC Chairman, marking the fifth time the OCC has led the council.

Before becoming Comptroller of the Currency, Mr. Curry served as a Director of the FDIC since January 2004 and as Chairman of the NeighborWorks America Board of Directors. Comptroller Curry served five Massachusetts governors as the Commonwealth's Commissioner of Banks from 1990 to 1991 and from 1995 to 2003. He was Acting Commissioner from February 1994 to June 1995. He previously served as First Deputy Commissioner and Assistant General Counsel in the Massachusetts Division of Banks.

Comptroller Curry entered state government in 1982 as an attorney with the Massachusetts Office of the Secretary of State. He was Chairman of the Conference of State Bank Supervisors from 2000 to 2001 and served two terms on the State Liaison Committee of the FFIEC, including a term as the committee chairman.

He is a summa cum laude graduate of Manhattan College, where he was elected to Phi Beta Kappa. He received his law degree from the New England School of Law.

Executive Committee



Comptroller Curry is backed by the Executive Committee, from left: Larry L. Hattix; Paul M. Nash; Jennifer C. Kelly; Thomas R. Bloom; Mark Levonian, former Senior Deputy Comptroller for Economics; Martin Pfinsgraff; John C. Lyons Jr.; and Amy Friend. Not shown: David Nebhut, Senior Deputy Comptroller for Economics.

Chief of Staff's Office

Paul M. Nash, Senior Deputy Comptroller and Chief of Staff, oversees the OCC's Public Affairs Department, which includes Congressional Liaison, Banking Relations, Press Relations, Internal Communications, Minority Affairs, and Communications, and directs the daily operations of the Comptroller's support staff. Mr. Nash joined the OCC in this role in May 2012.

Before joining the OCC, Mr. Nash was the Deputy to the Chairman for External Affairs at the FDIC from 2009 to 2012. He served as Executive Director and Counsel at Verizon Wireless in Washington, D.C., from 2001 to 2009. Before joining Verizon Wireless, Mr. Nash was a legislative assistant to Senator Tim Johnson (D-S.D.) from 1997 to 2001. He also worked for the Congressional Research Service and practiced law in Washington, D.C., and New Orleans, La.

Mr. Nash received a bachelor of arts degree in

international relations and history from the University of Pennsylvania and a law degree from Georgetown University.

Chief Counsel's Office

As Senior Deputy Comptroller and Chief Counsel, Amy Friend supervises the agency's legal activities, including legal advisory services to banks and examiners, enforcement and compliance activities, litigation, legislative initiatives, and regulation of securities and corporate practices of national banks and federal savings associations. Ms. Friend also oversees the agency's licensing and community affairs functions.

Before she returned to the OCC in February 2013, Ms. Friend was Managing Director at Promontory Financial Group. From 2008 to 2010, she served as Chief Counsel to the U.S. Senate Committee on Banking, Housing, and Urban Affairs. She first joined

the OCC as Assistant Chief Counsel in 1998, after holding several key legal positions in the private sector and the legislative branch.

Ms. Friend is a graduate of the Georgetown University Law Center and has a bachelor of arts degree in psychology from the University of Pennsylvania.

Chief National Bank Examiner's Office

As Senior Deputy Comptroller and Chief National Bank Examiner, John C. Lyons Jr. oversees the development of supervisory policies and examination procedures and tools in the areas of bank information technology, capital, commercial and retail credit risk, compliance, financial markets, balance sheet and asset management, and operational risk. The department includes the Office of the Chief Accountant, which oversees accounting policy guidance for national banks and federal savings associations. Mr. Lyons was appointed to his position in October 2011.

Mr. Lyons joined the OCC in 1977 as an Assistant National Bank Examiner and has held a variety of leadership and staff positions in bank supervision, including roles as a field examiner, a credit team leader, and Examiner-in-Charge of several banks. He earned a bachelor of science degree in business administration from DePaul University and a master's degree in business administration from Loyola University Chicago.

Large Bank Supervision

Senior Deputy Comptroller Martin Pfinsgraff oversees the supervision of the largest and most complex national banks and federal savings associations, as well as federal branches and agencies of foreign banks in the United States. He joined the OCC in 2011 as Deputy Comptroller for Credit and Market Risk and assumed his current OCC position in July 2013.

Mr. Pfinsgraff has more than 30 years of experience in finance and risk management in the banking, securities, and insurance industries. He has earned

a degree in psychology from Allegheny College, a master's degree in finance from Harvard Business School, and the chartered financial analyst designation.

Midsize and Community Bank Supervision

Senior Deputy Comptroller Jennifer C. Kelly oversees the supervision of midsize and community banks, focusing on ensuring sound risk identification and management processes and regulatory compliance. She assumed her current OCC position in April 2008.

Ms. Kelly joined the OCC in 1979 as an Assistant National Bank Examiner and received her commission in 1983. She has a broad supervision background, including extensive experience in problem bank supervision and policy development. She earned a bachelor of arts degree in economics from Mount Holyoke College.

Economics



David Nebhut serves as Senior Deputy Comptroller for Economics, a position he has held since November 2013. The department performs analysis of national and global economic trends, provides examination support for bank supervision, contributes to policy development, and conducts original research.

Mr. Nebhut joined the OCC in 1980 as a financial economist. Before taking on his new duties, he was Director for Policy Analysis, supervising the development of economic policies related to issues of potential importance to the agency.

Mr. Nebhut has a bachelor's degree in economics from Pennsylvania State University and has completed the coursework for his doctorate in economics at Northwestern University.

Office of Management

Thomas R. Bloom, Senior Deputy Comptroller for Management and Chief Financial Officer, oversees the OCC's financial management, human resources, information technology, asset acquisition, security, continuing education, and real estate services.

Mr. Bloom's extensive government career has included positions in the U.S. Departments of Defense, Commerce, and Education and the U.S. General Services Administration. He joined the OCC in his current position in 2003.

Mr. Bloom has a bachelor's degree in business administration from the University of Michigan and is a certified public accountant.

Office of Enterprise Governance and Ombudsman

Larry L. Hattix is the Senior Deputy Comptroller for Enterprise Governance and Ombudsman. He oversees the agency's enterprise governance function, the bank and savings association appeals program, and the OCC's Customer Assistance Group. He assumed these duties in February 2013.

Mr. Hattix joined the OCC in 1988 as an Assistant National Bank Examiner and went on to obtain his

commission as a National Bank Examiner in 1994, with a specialty in consumer and CRA compliance. He later became an Assistant Deputy Comptroller and, in 2008, the OCC Ombudsman.

Mr. Hattix holds a degree in business administration and finance from Carroll College.



Office of Minority and Women Inclusion

Executive Director Joyce Cofield sets policies and oversees all agency matters relating to equal employment opportunity and the diversity of the OCC's workforce, senior management, and business activities. The office

reports directly to the Comptroller of the Currency.

Before joining the OCC in 2001 as Director of Employment and Diversity Management, Ms. Cofield held a number of leadership roles at major U.S. corporations. She has a bachelor of science degree in biology from Virginia Union University and a master's degree in industrial microbiology from Boston University.

Section Five

Licensing and Enforcement Measures

Figure 1: Corporate Application Activity, FY 2012 and FY 2013

	FY 2012	FY 2013	FY 2013 decisions			
	Applications received		Approved	Conditionally approved	Denied	Total ^a
Branches	844	696	694	0	0	694
Capital/sub-debt	174	97	108	7	0	115
Change in bank control	10	8	3	0	0	6
Charters	2	2	0	0	0	0
Conversions ^b	5	12	3	2	0	5
Federal branches	5	0	0	0	0	0
Fiduciary powers	16	7	4	0	0	4
Mergers ^c	98	92	90	8	0	98
Relocations	197	190	183	3	0	186
Reorganizations (national banks only)	53	53	34	11	0	45
Stock appraisals	0	0	0	0	0	0
Subsidiaries	148	48	37	1	0	38
12 CFR 5.53 change in assets	26	27	13	12	0	25
Limited national bank upgrade	0	0	0	0	0	0
Operations	35	4	6	0	0	6
Sasser/conversions out ^d	38	34	24	3	0	27
Bylaw/charter (federal savings associations only)	73	99	94	0	0	94
Total	1,724	1,369	1,293	47	0	1,343

Source: OCC data.

^a Total includes alternative decisions or no-objections.

^b Conversions to national bank charters.

^c Mergers include failure transactions when a national bank is the resulting institution.

^d Conversions to federal savings association charters and mutual-to-stock conversions.

Figure 2: Licensing Actions and Timeliness, National Banks, FY 2012 and FY 2013

	Target time frames in days ^a	FY 2012			FY 2013		
		Number of decisions	Within target		Number of decisions	Within target	
			Number	Percent		Number	Percent
Branches	45/60	862	858	100	694	676	97
Capital/sub-debt	30/45	145	142	98	115	109	95
Change in bank control	NA/60	6	5	83	6	5	83
Charters ^b		2	2	100	0	0	0
Conversions	30/90	8	6	75	5	5	100
Federal branches	NA/120	2	2	100	0	0	0
Fiduciary powers	30/45	5	4	80	4	4	100
Mergers	45/60	94	91	97	98	92	94
Relocations	45/60	192	188	98	186	180	97
Reorganizations	45/60	49	42	86	45	40	89
Stock appraisals	NA/90	0	0	0	0	0	0
Subsidiaries	NA	115	113	98	38	37	97
12 CFR 5.53 change in assets	NA/60	27	26	96	25	25	100
Limited national bank upgrade		0	0	0	0	0	0
Operations	30/60	25	25	100	6	6	100
Sasser/conversions out	30/60	41	41	100	27	27	100
Bylaw/charter	30/60	66	66	100	94	94	100
Total		1,639	1,611	98	1,343	1,300	97

Source: OCC data.

Note: Most decisions (93 percent in 2012 and 97 percent in 2013) were decided in the district offices and Large Bank Licensing under delegated authority. Decisions include approvals, conditional approvals, and denials. NA means not applicable.

^a Beginning in 2014, the data will be for national banks and federal savings associations combined. Those filings that qualified for the “expedited review” process are subject to the shorter time frames listed. The longer time frames are the standard benchmarks for more complex applications. The target time frame may be extended if the OCC needs additional information to reach a decision, permits additional time for public comment, or processes a group of related filings as one transaction.

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

Figure 3: Change in Bank Control Act, National Banks, FY 2009–FY 2013 (Notices Processed With Disposition)^a

Year	Received	Acted on	Not disapproved	Disapproved	Withdrawn
2013	8	6	6	0	0
2012	10	6	6	0	0
2011	4	6	6	0	0
2010	8	5	5	0	0
2009	10	10	7	0	3

Source: OCC data.

^a FY 2012 and 2013 data are for national banks and federal savings associations combined.

Figure 4: OCC Enforcement Actions, FY 2013

Type of enforcement action	Against institutions	Against institution-affiliated parties
Cease-and-desist orders	43	14
Restitution amount ordered	\$ 3,643,839,269	\$ 784,937
Temporary cease-and-desist orders	0	0
12 USC 1818 civil money penalties	9	21
12 USC 1818 civil money penalties amount assessed	\$ 917,100,000	\$ 1,539,500
Flood insurance civil money penalties	13	0
Flood insurance civil money penalties amount assessed	\$ 281,100	\$ 0
Formal agreements	31	0
Capital directives	0	NA
Prompt corrective action directives	1	NA
Individual minimum capital ratio letters	35	NA
Safety and soundness orders	0	NA
Memorandums of understanding	7	NA
Commitment letters	4	NA
Suspension orders	NA	0
12 USC 1818 removal/prohibition orders	NA	16
12 USC 1829 prohibitions	NA	97
Letters of reprimand	NA	22
Total	143	170

Source: OCC data

Note: NA means not applicable.

Figure 5: List of Applications Presenting Community Reinvestment Act Issues Decided, FY 2013

Bank, city, state	Approval date	Document number
Union Bank, NA, San Francisco, Calif. (P&A)	October 2012	CRA Decision No. 151
Union Bank, NA, San Francisco, Calif. (merger)	October 2012	CRA Decision No. 152
Capital One, NA, McLean, Va. (merger)	October 2012	CRA Decision No. 153
Bank of America, NA, Charlotte, N.C. (merger)	November 2012	CRA Decision No. 154
BankUnited, NA, Miami Lakes, Fla. (merger)	March 2013	CRA Decision No. 155
FirstMerit Bank, NA, Akron, Ohio (merger)	April 2013	CRA Decision No. 156

Source: OCC data

Section Six

Financial Management Discussion and Analysis

Letter From the Chief Financial Officer

I am pleased to present the OCC's financial statements as an integral part of the *Annual Report Fiscal Year 2013*. For FY 2013, our independent auditors again have rendered an unqualified opinion.

The OCC remains committed to maintaining a strong internal control environment, which is the foundation upon which our unqualified audit opinion is built. During the past eight years, the OCC has systematically applied the concepts and requirements outlined in the Office of Management and Budget's (OMB) Circular A-123, "Management's Responsibility for Internal Control, Appendix A—Internal Control Over Financial Reporting." In addition, each year the OCC strives to identify new ways to improve the strength of our internal control program, and FY 2013 was no exception.

This year, the OCC brought a data analytics approach into its internal control review process. We used this approach to evaluate data for compliance with policies and procedures, identify erroneous payments, and analyze resource usage. The OCC's administrative data analytics program also has resulted in strengthening compliance with purchase card policies and procedures and in evaluating workload distribution in the Acquisition Management and Internal Controls units. Continuing into FY 2014, the OCC will look to identify other ways to use data analytics to improve our internal control environment, while using our resources more efficiently.

Turning to other FY 2013 accomplishments, the OCC completed the consolidation of several office locations into one new headquarters building on time and on budget. It was important for the OCC, as a

nonappropriated agency, to be able to fund this project using its financial reserves. In addition to the success of this move, the OCC also effectively relocated the OCC's technical infrastructure to one modern facility in northern Virginia. This consolidation was a tremendous success and increases the availability of the OCC's information technology (IT) systems by minimizing unexpected system outages due to facility and other operational issues, while laying the foundation for the continued modernization of the OCC's IT systems.



Thomas R. Bloom, Senior Deputy Comptroller for Management and Chief Financial Officer

Another way the OCC continues to provide diligent stewardship over its financial resources is through its procurement process. Not only did we realize \$15.7 million in negotiated cost savings, we also surpassed the target goals established by the Treasury Department for awarding contracts to small businesses, small disadvantaged businesses, and women-owned small businesses. The OCC is proud of its record in meeting or exceeding these goals every year and remains committed to exceeding the target goals for other socioeconomic categories, including small businesses that operate in historically underutilized business zones and companies owned by service-disabled veterans.

The Office of Management (OM) also continues to execute its Lean Six Sigma (LSS) process improvement program. In FY 2013, the OCC

completed 70 formal and informal improvement projects, which resulted in \$8.4 million in cost or productivity savings. This was supplemented by more than 800 employee-initiated improvements that resulted in an additional \$7.1 million of savings and productivity. All OM executives have received formal LSS training, and the OCC has 71 staff members certified as Master Black Belts, Black Belts, or Green Belts. Additionally, in FY 2013 the LSS program has continued working with other OCC departments outside of OM. As part of the LSS effort this year, the OCC successfully reengineered its Assistant National Bank Examiner recruitment program, which resulted in a first-year savings of approximately \$4,400 per new hire and is expected to save close to \$800,000 in the coming year. In addition, while LSS has been primarily applied to administrative processes in

previous years, in FY 2014 it is being adopted agency-wide.

As we look forward to FY 2014, the OCC has the financial resources it needs to complete its goals, and the public can rest assured that the OCC will continue its unwavering commitment to maintaining a climate of strong internal controls and pursuing a fiscally responsible approach in supervising national banks and federal savings associations.



Thomas R. Bloom
Senior Deputy Comptroller for Management
and Chief Financial Officer

Financial Summary

The OCC received an unqualified opinion on its FY 2013 and FY 2012 financial statements. The OCC's principal financial statements have been prepared to report the financial position and results of the agency's operations, pursuant to the requirements of 31 USC 3515(b). While the statements have been prepared from the books and records of the agency in accordance with generally accepted accounting principles (GAAP) for federal entities and the formats prescribed by the OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The OCC's financial statements consist of Balance Sheets, the Statements of Net Cost, the Statements of Changes in Net Position, the Statements of Budgetary Resources, and the Statements of Custodial Activity. The OCC presents the financial statements and notes on a comparative basis, providing financial information for FY 2013 and FY 2012. The financial

statements, followed by notes and the auditor's opinion, begin on page 46.

The OCC, in accordance with 12 USC 482, establishes budget authority for a given fiscal year. The total budget authority available for use by the OCC in FY 2013 was \$1,023.0 million, which represents a decrease of \$203.1 million, or 16.6 percent, from the \$1,226.1 million budget in FY 2012. The OCC executed \$1,004.8 million, or 98.2 percent, of the FY 2013 budget compared with \$1,140.1 million, or 93.0 percent, executed in FY 2012.

The Statements of Budgetary Resources, found on page 49, provide information about how budgetary resources were made available to the OCC for the year and present the status of these resources and the net outlay of budgetary resources at the end of the year.

Figure 6 illustrates the OCC's key components of financial condition and the subsequent narrative sections address the OCC's financial activities in FY 2013 and FY 2012.

Figure 6: Key Components of Financial Condition, as of September 30, 2013 (in Thousands)

	2013	2012	Increase / (Decrease)	
			\$	%
Costs^a				
Total financing sources	\$ 31,843	\$ 31,873	\$ (30)	(0.1%)
Less net cost	(29,211)	(54,209)	(24,998)	(46.1%)
Net change of cumulative results of operations	\$ 2,632	\$ (22,336)	\$ 24,968	111.8%
Net position^b				
Assets				
Fund balance with Treasury	\$ 3,466	\$ 8,814	\$ (5,348)	(60.7%)
Investments	1,310,072	1,380,006	(69,934)	(5.1%)
Property, plant, and equipment, net	156,658	127,568	29,090	22.8%
Other	6,671	3,079	3,592	116.7%
Total assets	\$ 1,476,867	\$ 1,519,467	\$ (42,600)	(2.8%)
Liabilities				
Accounts payable and other accrued liabilities	\$ 30,705	\$ 56,755	\$ (26,050)	(45.9%)
Accrual payroll and benefits	70,417	87,296	(16,879)	(19.3%)
Deferred revenue	239,272	241,348	(2,086)	(0.9%)
Other actuarial liabilities	60,384	60,611	(227)	(0.4%)
Total liabilities	\$ 400,778	\$ 446,010	\$ (45,232)	(10.1%)
Net position	1,076,089	1,073,457	2,632	0.2%
Total liabilities and net position	\$ 1,476,867	\$ 1,519,467	\$ (42,600)	(2.8%)

Source: OCC financial system data.

^a Statements of Net Cost and Statements of Changes in Net Position.

^b Balance Sheets.

Cost of Operations

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

Total program costs for FY 2013 of \$1,038.5 million reflect a decrease of \$11.1 million, or 1.1 percent, from \$1,049.6 million in FY 2012. The change was

due primarily to a one-time payment of the Pentegra Defined Benefit (DB) Plan assumed from OTS in FY 2012 offset by increased payroll and benefits, contractual services for systems maintenance, and rent cost in FY 2013.

Revenues

The OCC's operations are funded primarily by assessments collected from national banks and federal savings associations, from interest received on investments in U.S. Treasury securities, and from the rent that the CFPB pays the OCC for leasing office space.

Total FY 2013 revenue of \$1,006.7 million reflects a \$7.0 million, or 0.7 percent, increase over FY 2012 revenue of \$999.7 million. Total assets under

the OCC’s supervision rose, as of June 30, 2013, to \$10.2 trillion, up 2.0 percent from \$10.0 trillion a year earlier.

Interest revenue totaled \$17.9 million in FY 2013, a decrease of \$1.8 million, or 9.1 percent, over the amount (\$19.7 million) reported in FY 2012. This decrease is primarily attributable to longer-term securities with higher yields maturing and being reinvested at lower rates. Other income includes revenue received from reimbursable activities with federal entities. Figure 7 shows the OCC’s funding sources for FY 2013 and FY 2012.

Assets

The OCC’s assets include both “entity” and “non-entity” assets. The OCC uses entity assets, which belong to the agency, to fund operations. Non-entity assets are assets that the OCC holds on behalf of another federal agency. The OCC’s non-entity assets presented as accounts receivable are CMPs due the federal government through court-enforced legal actions.

As of September 30, 2013, total assets were \$1,476.9 million, a decrease of \$42.6 million, or 2.8 percent, from the total assets of \$1,519.5 million reported on September 30, 2012. The main factors contributing to the net reduction in total assets include a decrease of \$5.3 million in the fund balance with Treasury (FBWT), a decrease in investments and related interest of \$70.0 million used for OCC FY 2013 operating expenses and capital expenditures, and an increase in property and equipment of \$29.1 million. The increase in property and equipment resulted primarily from the addition of assets related to the leasehold improvement project and equipment purchases for the OCC’s new headquarters building.

Investments

On September 30, 2013, investments and related interest were \$1.3 billion, compared with \$1.4 billion the previous year. The decrease of \$100.0 million, or 7.1 percent, is attributable to the normal funding of the OCC’s ongoing operations. The market value of the OCC’s investment portfolio in excess of book value declined this year to \$14.4 million from \$40.3 million on September 30, 2012. This \$25.9 million decrease in market value (64.3 percent) is primarily attributable to the effects of rising interest rates during FY 2013. The OCC invests available funds in non-marketable U.S. Treasury securities issued through the Treasury Department’s Bureau of Public Debt in accordance with the provisions of 12 USC 481 and 12 USC 192. The OCC manages risk by diversifying its portfolio across maturities within established parameters. Diversifying maturities of the individual securities is meant to help manage the inherent risk of interest rate fluctuations. The weighted average maturity of the portfolio declined yearover-year to 2.1 years as of September 30, 2013, compared with 2.5 years as of September 30, 2012, because of the investment of funds in shorter-term securities during the period to meet expected cash flow needs.

The OCC’s investment portfolio is composed of overnight and longer-term securities. The portion of the portfolio comprising longer-term (core) investments as of September 30, 2013, and September 30, 2012, was \$771.5 million, or 59.7 percent, and \$846.5 million, or 62.3 percent, respectively. The portfolio earned an annual yield for FY 2013 of 1.6 percent, compared with 1.9 percent in FY 2012. The OCC calculates annual portfolio yield by dividing the total interest earned during the year by the average ending monthly book value of investments.

Figure 7: Funding Sources (in Millions)

	FY 2013	FY 2012	Change (\$)	Change (%)
Assessments	\$ 973.1	\$ 963.6	\$ 9.5	1.0%
Interest and other income	33.6	36.1	(2.5)	(7.0%)
Total revenue	\$ 1,006.7	\$ 999.7	\$ 7.0	0.7%

Source: OCC financial system data.

Liabilities

The OCC's liabilities represent the resources due to others or held for future recognition and are composed largely of deferred revenue, accrued liabilities, and accounts payable. Deferred revenue represents the unearned portion of semiannual assessments that have been collected but not earned.

As of September 30, 2013, total liabilities were \$400.8 million, a net decrease of \$45.2 million, or 10.1 percent, from total liabilities of \$446.0 million on September 30, 2012. The majority of this decrease can be attributed to the \$43.0 million, or 29.8 percent, decrease in accounts payable and accrued liabilities year-over-year, which was primarily the result of accruals related to the leasehold improvement project for the OCC's new headquarters building incurred in FY 2012.

Net Position

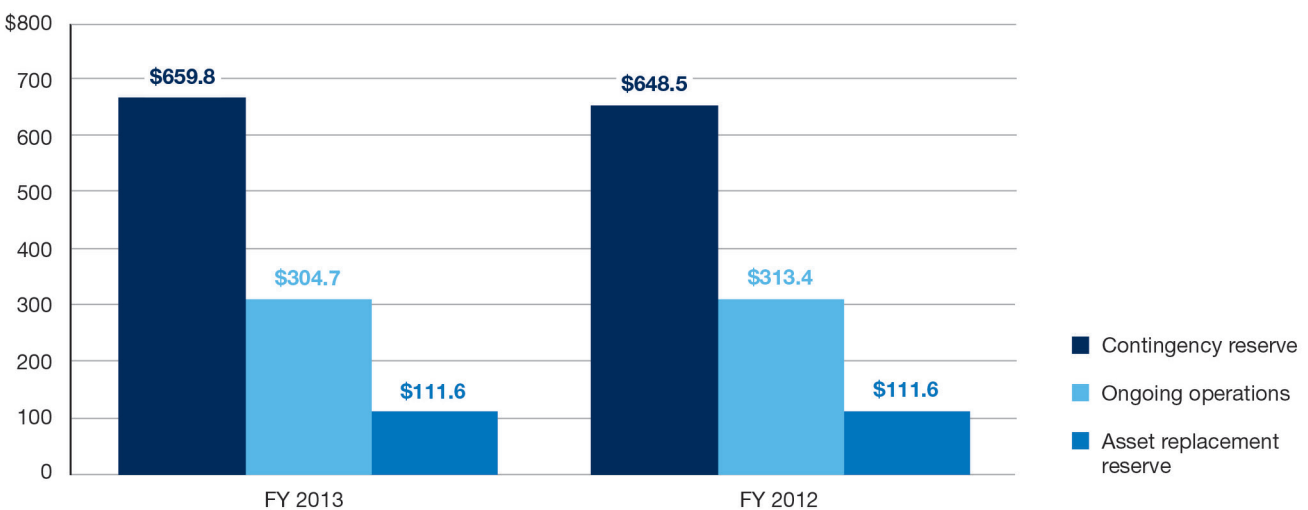
The OCC's net position of \$1,076.1 million as of September 30, 2013, and \$1,073.5 million as of September 30, 2012, represents the cumulative net excess of the OCC's revenues over the cost of operations. The net position is presented on both the Balance Sheets and the Statements of Changes in Net Position.

The OCC reserves a significant portion of the net position to cover foreseeable but rare events or new requirements and opportunities. The OCC also sets aside funds for ongoing operations to cover undelivered orders, the consumption of assets, and capital investments. The establishment of financial reserves is integral to the effective stewardship of the OCC's resources, particularly because the agency does not receive congressional appropriations. The contingency reserve supports the OCC's ability to accomplish its mission by being available to reduce the impact on the OCC's operations of significant revenue fluctuations.

The asset replacement reserve is for the replacement of information technology investments, leasehold improvements, and furniture replacement for future years. The target level for the replacement reserve is established annually based on the gross value of existing property and equipment plus a growth-rate factor and a margin for market cost adjustments. In FY 2012, the asset replacement reserve was used to pay for leasehold improvements and relocation costs as part of the OCC's efforts to consolidate several office locations in Washington, D.C., into one headquarters building.

Figure 8 shows the OCC's composition of net position for FY 2013 and FY 2012.

Figure 8: Composition of Net Position (in Millions)



Source: OCC financial system data.

Financial Statements

Office of the Comptroller of the Currency Balance Sheets

As of September 30, 2013 and 2012

(in Thousands)

	2013	2012
Assets		
Intragovernmental:		
Fund balance with Treasury (Note 2)	\$ 3,466	\$ 8,814
Investments and related interest (Note 3)	1,310,072	1,380,006
Accounts receivable (Note 4)	1,170	2,035
Other assets	165	558
Total intragovernmental	1,314,873	1,391,413
Accounts receivable, net (Note 4)	5,290	471
Property and equipment, net (Note 5)	156,658	127,568
Other assets	46	15
Total assets	\$ 1,476,867	\$ 1,519,467
Liabilities		
Intragovernmental:		
Accounts payable and other accrued liabilities	\$ 6,558	\$ 7,913
Total intragovernmental	6,558	7,913
Accounts payable	1,617	3,571
Accrued payroll and benefits	21,458	40,930
Accrued annual leave	48,959	46,366
Other accrued liabilities	22,530	45,271
Deferred revenue	239,272	241,348
Other actuarial liabilities (Note 8)	60,384	60,611
Total liabilities	400,778	446,010
Net position (Note 9)	1,076,089	1,073,457
Total liabilities and net position	\$ 1,476,867	\$ 1,519,467

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

Office of the Comptroller of the Currency Statements of Net Cost

For the Years Ended September 30, 2013 and 2012

(in Thousands)

	2013	2012
Program costs:		
Supervise		
Intragovernmental	\$ 121,456	\$ 115,089
With the public	769,079	780,112
Subtotal—supervise	\$ 890,535	\$ 895,201
Regulate		
Intragovernmental	\$ 18,235	\$ 17,722
With the public	110,029	114,612
Subtotal—regulate	\$ 128,264	\$ 132,334
Charter		
Intragovernmental	\$ 2,852	\$ 2,995
With the public	16,842	19,071
Subtotal—charter	\$ 19,694	\$ 22,066
Total program costs	\$ 1,038,493	\$ 1,049,601
Less earned revenues not attributed to programs	(1,006,665)	(999,727)
Net program costs before gain/loss from changes in assumptions	\$ 31,828	\$ 49,874
Actuarial (gain)/loss (Note 8)	(2,617)	4,335
Net cost of operations (Note 10)	\$ 29,211	\$ 54,209

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

Office of the Comptroller of the Currency
Statements of Changes in Net Position
For the Years Ended September 30, 2013 and 2012
(in Thousands)

	2013	2012
Beginning balances	\$ 1,073,457	\$ 1,095,793
Other financing sources:		
Transfer out without reimbursement	0	(434)
Imputed financing (Note 11)	31,843	32,307
Net cost of operations	(29,211)	(54,209)
Net change	2,632	(22,336)
Ending balances	\$ 1,076,089	\$ 1,073,457

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

Office of the Comptroller of the Currency
Statements of Budgetary Resources

For the Years Ended September 30, 2013 and 2012

(in Thousands)

	2013	2012
Budgetary resources:		
Unobligated balance, brought forward, October 1	\$ 1,087,149	\$ 1,162,804
Adjustment to unobligated balance brought forward, October 1	0	0
Unobligated balance from prior year budget authority, net	1,087,149	1,162,804
Spending authority from offsetting collections	1,005,453	1,001,516
Total budgetary resources	\$ 2,092,602	\$ 2,164,320
Status of budgetary resources:		
Obligations incurred	\$ 1,016,211	\$ 1,077,171
Exempt from apportionment	1,076,391	1,087,149
Total unobligated balance, end of year	1,076,391	1,087,149
Total budgetary resources	\$ 2,092,602	\$ 2,164,320
Change in obligated balance:		
Unpaid obligation balance brought forward, October 1	\$ 284,513	\$ 251,164
Obligations incurred	1,016,211	1,077,171
Outlay (gross)	(1,076,988)	(1,043,822)
Unpaid obligation, end of year	223,736	284,513
Uncollected payment, federal source brought forward, October 1	(5,978)	(7,493)
Change in uncollected payment, federal source	1,232	1,515
Uncollected payment, federal source, end of year	(4,746)	(5,978)
 Memorandum (non-add) entries		
Obligated balance, start of year	\$ 278,535	\$ 243,671
Obligated balance, end of year	\$ 218,990	\$ 278,535
 Budget authority and outlays, net:		
Budget authority, gross	\$ 1,005,453	\$ 1,001,516
Actual offsetting collections	(1,006,685)	(1,003,031)
Change in uncollected payment from federal source	1,232	1,515
Budget authority, net	0	0
Outlay, gross	1,076,988	1,043,822
Actual offsetting collections	(1,006,685)	(1,003,031)
Agency outlay, net	\$ 70,303	\$ 40,791

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

Office of the Comptroller of the Currency
Statements of Custodial Activity
For the Years Ended September 30, 2013 and 2012
(in Thousands)

	2013	2012
Revenue activity:		
Sources of cash collections		
Civil money penalties	\$ 917,538	\$ 55,358
Accrual adjustment	1,076	(68)
Total custodial revenue	918,614	55,290
 Disposition of custodial revenue		
Transferred to Treasury	917,538	55,358
(Increase)/Decrease in amounts yet to be transferred	1,076	(68)
Total disposition for custodial revenue	918,614	55,290
 Net custodial activity	\$ 0	\$ 0

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

Notes to the Financial Statements

Note 1 – Significant Accounting Policies

Reporting Entity

The OCC was created as a bureau within the Treasury Department by an act of Congress in 1863. The mission of the OCC was to establish and regulate a system of federally chartered national banks. The National Currency Act of 1863, rewritten and reenacted as the National Bank Act of 1864, authorized the OCC to supervise national banks and to regulate the lending and investment activities of federally chartered institutions. With the passage of Dodd–Frank on July 21, 2010, the OCC also oversees federally chartered savings associations.

The financial statements report on the OCC’s three major programs: supervise, regulate, and charter national banks and federal savings associations. The OCC’s major programs support the agency’s overall mission by ensuring a safe and sound system of national banks and federal savings associations; providing fair access to financial services and fair treatment of national bank and federal savings association customers; maintaining a flexible legal and regulatory framework that enables the national banks and federal savings associations to provide a full, competitive array of financial services consistent with statutory and prudential safety and soundness constraints; and having a competent, highly motivated, and diverse workforce that makes effective use of the OCC’s resources.

Basis of Accounting and Presentation

The OCC’s financial statements are prepared from the agency’s accounting records in conformity with GAAP as set forth by the Federal Accounting Standards Advisory Board (FASAB). The OCC’s financial statements are presented in accordance with the form and content guidelines established by the OMB in Circular No. A-136, “Financial Reporting Requirements.”

In addition, the OCC applies financial accounting and reporting standards issued by the Financial Accounting Standards Board (FASB) only as outlined in Statement of Federal Financial Accounting Standards (SFFAS) No. 34, “The Hierarchy of Generally Accepted Accounting Principles,” including the “Application

of Standards Issued by the Financial Accounting Standards Board.”

The OCC’s financial statements consist of Balance Sheets, the Statements of Net Cost, the Statements of Changes in Net Position, the Statements of Budgetary Resources, and the Statements of Custodial Activity. The OCC presents its financial statements on a comparative basis, providing information for FY 2013 and FY 2012.

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

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

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

Revenues and Other Financing Sources

The OCC derives its revenue primarily from assessments and fees paid by national banks, federal savings associations, and the federal branches of foreign banks, from income on investments in non-marketable U.S. Treasury securities, and from the rent that the CFPB pays the OCC for leasing office space. The OCC does not receive congressional

appropriations to fund any of the agency's operations. Therefore, the OCC has no unexpended appropriations.

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

Funds From Dedicated Collections

Funds from dedicated collections are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the government's general revenues. In accordance with FASAB SFFAS No. 43, "Funds From Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds," all of the OCC's revenue meets this criterion and constitutes funds from dedicated collections.

Fund Balance With Treasury

The Treasury Department processes the OCC's cash receipts and disbursements. The OCC's Statements of Budgetary Resources reflect the status of the agency's FBWT (see Note 2).

Investments

It is the OCC's policy to invest available funds in accordance with the provisions of 12 USC 481 and 12 USC 192. The OCC invests available funds in U.S. government account series (GAS) Treasury securities, which may include one-day certificates, bills, and notes. The OCC does not invest funds with state or national banks. The OCC has the positive intent and ability to hold all U.S. Treasury securities to maturity in accordance with FASB Accounting Standards Codification (ASC) Topic 320, "Investments—Debt and Equity Securities" (see Note 3).

Accounts Receivable

In accordance with SFFAS No. 1, "Accounting for Selected Assets and Liabilities," the OCC updates the "allowance for loss on accounts receivable" account

annually or as needed to reflect the most current estimate of accounts that are likely to be uncollectible. Accounts receivable from the public are reduced by an allowance for loss on doubtful accounts (see Note 4).

Property and Equipment

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

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

In addition, property and equipment are depreciated or amortized, as applicable, over the estimated useful lives using the straight-line method and are removed from the OCC's asset accounts in the period of disposal, retirement, or removal from service. Any difference between the book value of the property and equipment and amounts realized is recognized as a gain or loss in the same period that the asset is removed (see Note 5).

Liabilities

The OCC records liabilities for amounts that are likely to be paid because of events that have occurred as of the relevant Balance Sheet dates. The OCC's liabilities consist of routine operating accounts payable, accrued payroll and benefits, and deferred revenue. The OCC's liabilities represent the amounts owed or accrued under contractual or other arrangements governing the transactions, including operating expenses incurred but not paid. The OCC accounts for liabilities in accordance with SFFAS No. 5, "Accounting for Liabilities of the Federal Government."

Accounts Payable

Payments have been accelerated to be made within 15 days in accordance with OMB Memorandum M-12-16, issued July 11, 2012. Interest penalties are paid when payments are late. Discounts are taken when cost effective and when the invoices are paid within the discount period.

Accrued Annual Leave

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

Deferred Revenue

The OCC's activities are primarily financed by assessments on assets held by national banks, federal savings associations, and the federal branches of foreign banks. These assessments are due March 31 and September 30 of each year, based on their asset balances as of December 31 and June 30, respectively. Assessments are paid mid-cycle and are recognized as earned revenue on a straight-line basis. The unearned portions of collected assessments are classified as deferred revenue.

Employment Benefits

Retirement Plans

All of the OCC's employees participate in one of three retirement systems—the Civil Service Retirement System (CSRS), the Federal Employees Retirement System (FERS), or the Pentegra DB Plan. The CSRS and FERS are administered by the Office of Personnel Management (OPM). Pursuant to the enactment of Public Law 99-335, which established FERS, most OCC employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired before January 1, 1984, are covered by the CSRS, with the exception of those who, during the election period, joined FERS.

The OCC does not report CSRS or FERS assets or accumulated plan benefits that may be applicable to its employees in its financial statements; these amounts are reported by OPM. Although the OCC reports no liability for future payments to employees under these programs, the federal government is liable for future payments to employees through the various agencies administering these programs. The OCC recognizes future benefits costs via imputing to OPM.

The OCC assumed the role of benefit administrator for the Pentegra DB Plan in FY 2011. The Pentegra

DB Plan covers some of the employees transferred from the OTS and is closed to new entrants. The OCC is committed to adhering to sound financial policies and management oversight of the plan to ensure its sustainability for current and future retirees.

Thrift Savings and 401(k) Plans

The OCC's employees are eligible to participate in the federal Thrift Savings Plan. OCC employees also can elect to contribute a portion of their base pay to the OCC-sponsored 401(k) plan, subject to Internal Revenue Service regulations that apply to employee contributions in both the federal Thrift Savings Plan and the OCC-sponsored 401(k) plan.

As required by law, for OTS employees transferred to the OCC, the OCC continues to offer a separate 401(k) plan. The amount of each participant's matching contribution is based on the applicable retirement system under which each participant is covered.

Federal Employees Health Benefits and Federal Employees' Group Life Insurance

Employees and retirees of the OCC are eligible to participate in the Federal Employees Health Benefit (FEHB) and Federal Employees' Group Life Insurance (FEGLI) plans administered by the OPM that involve a cost sharing of biweekly coverage premiums by employee and employer. The OCC does not fund post-retirement benefits for these programs. Instead, the OCC's financial statements recognize an imputed financing source and corresponding expense that represent the OCC's share of the cost to the federal government of providing these benefits to all eligible OCC employees.

Post-Retirement Life Insurance Benefit Plan

The OCC sponsors a life insurance benefit plan for current and retired employees. On July 29, 2012, former OTS employees were converted to the OCC life insurance benefit plan. This plan is a defined benefit plan for which the benefit is earned over the period from the employee's date of hire to the date on which the employee is assumed to retire. The valuation of the plan is conducted in accordance with generally accepted actuarial principles and practices, including the applicable Actuarial Standards of Practice as issued by the Actuarial Standards Board. Specifically, the

OCC uses the actuarial cost method as outlined in FASB ASC Topic 715, “Compensation—Retirement Benefits,” to determine costs for its retirement plans. Gains or losses owing to changes in actuarial assumptions are amortized over the service life of the plan. The actuarial assumptions and methods used in calculating actuarial amounts comply with the requirements for post-retirement benefits other than pensions as set forth in FASB ASC Topic 715 and for health benefit plans as set forth in American Institute of Certified Public Accountants Statement of Position 92-6.

Custodial Revenues and Collections

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

Effects of Recent Accounting Pronouncements

Presentation of the OCC’s financial statement disclosures was affected by the publication of SFFAS No. 43, “Funds From Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds.” All of the OCC’s sources of revenue are characteristic of funds from dedicated collections as outlined in SFFAS No. 43. Accordingly, Significant Accounting Policies Note 1 and its subparagraphs include the appropriate disclosures effective for FY 2013.

Note 2—Fund Balance With Treasury

The status of the FBWT represents the budgetary resources that support the FBWT and is a reconciliation between budgetary and proprietary accounts. The OCC’s FBWT comprises one U.S. Treasury fund symbol designated as a trust fund and established by 12 USC 481 that governs the collection and use of assessments and other funds by the OCC.

The OCC’s FBWT consists of unobligated and obligated balances that reflect the budgetary authority remaining for disbursement against current or future obligations. The unobligated balance represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations and is classified as available for future OCC use without further congressional action. The obligated balance not yet disbursed represents funds that have been obligated for goods that have not been received or services that have not been performed. It also represents goods and services that have been delivered or received but for which payment has not been made. The nonbudgetary FBWT account represents adjustments to budgetary accounts that do not affect the FBWT. The OCC’s balance represents investment accounts that reduce the status of the FBWT.

As of September 30, 2013, there were no unreconciled differences between U.S. Treasury records and balances reported on the OCC’s general ledger.

The figure below depicts the OCC’s FBWT amounts for FY 2013 and FY 2012.

Fund Balance With Treasury (in Thousands)

	FY 2013	FY 2012
Fund balance		
Trust fund	\$ 3,466	\$ 8,814
Status of fund balance with Treasury		
Unobligated balance—available	\$ 1,076,391	\$ 1,087,149
Obligated balance not yet disbursed	218,990	278,535
Non-budgetary fund balance with Treasury	(1,291,915)	(1,356,870)
Total	\$ 3,466	\$ 8,814

Note 3—Investments and Related Interest

The OCC's investments are stated at amortized cost and the related accrued interest. Premiums and discounts are amortized over the term of the investment using the effective interest method. The fair market value of investment securities was \$1,320.9 million on September 30, 2013, and \$1,416.3

million on September 30, 2012. The overall portfolio earned an annual yield of 1.6 percent for FY 2013 and 1.9 percent for FY 2012.

The yield-to-maturity on the non-overnight portion of the OCC's investment portfolio ranged from 0.2 percent to 4.2 percent in FY 2013 and from 0.2 percent to 4.5 percent in FY 2012.

FY 2013 Investments and Related Interest (in Thousands)

	Cost	Amortization method	Amortized (premium) discount	Investments, net	Market value disclosure
Intragovernmental securities					
Non-marketable market-based	\$ 1,321,091	Effective interest	\$ (14,595)	\$ 1,306,496	\$ 1,320,881
Accrued interest	3,576		0	3,576	3,576
Total intragovernmental investments	\$ 1,324,667		\$ (14,595)	\$ 1,310,072	\$ 1,324,457

FY 2012 Investments and Related Interest (in Thousands)

	Cost	Amortization method	Amortized (premium) discount	Investments, net	Market value disclosure
Intragovernmental securities					
Non-marketable market-based	\$ 1,386,220	Effective interest	\$ (10,158)	\$ 1,376,062	\$ 1,416,347
Accrued interest	3,944		0	3,944	3,944
Total intragovernmental investments	\$ 1,390,164		\$ (10,158)	\$ 1,380,006	\$ 1,420,291

Note 4—Accounts Receivable

As presented in the OCC’s Balance Sheets, accounts receivable represent monies due from the public for services and goods provided that are retained by the OCC upon collection. The amounts shown for federal receivables represent pension sharing costs for OTS employees transferred to other federal agencies rather than to the OCC. Also included are CMP amounts

assessed against people, national banks, or federal savings associations for violations of law, regulation, and orders; unsafe or unsound practices; and breaches of fiduciary duty. Because CMPs are not debts due the OCC, the amount outstanding does not enter into the calculation for the allowance for uncollectible accounts. The OCC collected \$917.5 million and \$55.4 million in CMP non-entity revenue as of September 30, 2013 and 2012, respectively.

FY 2013 Accounts Receivable (in Thousands)

	Gross	Allowance for uncollectible accounts	Accounts receivable, net
Federal receivables	\$ 1,170	\$ 0	\$ 1,170
Civil money penalty receivables	1,493	0	1,493
Nonfederal receivables	3,822	(25)	3,797
Total accounts receivable	\$ 6,485	\$ (25)	\$ 6,460

FY 2012 Accounts Receivable (in Thousands)

	Gross	Allowance for uncollectible accounts	Accounts receivable, net
Federal receivables	\$ 2,035	\$ 0	\$ 2,035
Civil money penalty receivables	417	0	417
Nonfederal receivables	79	(25)	54
Total accounts receivable	\$ 2,531	\$ (25)	\$ 2,506

Note 5—Property and Equipment, Net

Property and equipment purchased at a cost greater than or equal to the noted thresholds below with useful lives of three years or more are capitalized at cost and depreciated or amortized, as applicable. Depreciation is expensed on a straight-line basis over the estimated useful life of the asset with the exception of leasehold improvements. Leasehold improvements are amortized on a straight-line basis over the lesser of the terms of the related leases or the estimated useful lives. Land, leasehold improvements in development, and internal-use software in development are not depreciated. Major alterations and renovations, including leasehold and land improvements, are capitalized, while maintenance and repair costs are charged to expenses

as incurred. All other property and equipment are depreciated or amortized, as applicable, on a straight-line basis over the estimated useful lives.

For FY 2013 and FY 2012, the OCC reported \$40.3 million and \$2.2 million, respectively, of fully depreciated assets or expired leasehold assets removed from service. In FY 2013, the OCC recognized a loss of \$8,400 on asset disposal. The figures below summarize property and equipment balances as of September 30, 2013 and 2012.

FY 2013 and FY 2012 assets include land and a building. The building is a rental-income property that the OCC uses to supplement its operating budget (see Note 6).

FY 2013 Property and Equipment, Net (in Thousands)

Class of assets	Capitalization threshold	Useful life (in years)	Cost	Accumulated depreciation/amortization	Net book value
Land	NA	NA	\$ 7,101	\$ 0	\$ 7,101
Building	50	50	49,188	(33,918)	15,270
Leasehold improvements	50	5-20	106,729	(27,913)	78,816
Equipment	50	3-10	49,437	(31,364)	18,073
Internal-use software	500	5	102,726	(71,347)	31,379
Internal-use software—development	500	NA	5,513	0	5,513
Leasehold improvements—development	50	NA	506	0	506
Total			\$ 321,200	\$ (164,542)	\$ 156,658

FY 2012 Property and Equipment, Net (in Thousands)

Class of assets	Capitalization threshold	Useful life (in years)	Cost	Accumulated depreciation/amortization	Net book value
Land	NA	NA	\$ 7,101	\$ 0	\$ 7,101
Building	50	50	49,188	(32,865)	16,323
Leasehold improvements	50	5-20	103,553	(58,049)	45,504
Equipment	50	3-10	40,775	(26,882)	13,893
Internal-use software	500	5	80,546	(65,275)	15,271
Internal-use software—development	500	NA	18,627	0	18,627
Leasehold improvements—development	50	NA	10,849	0	10,849
Total			\$ 310,639	\$ (183,071)	\$ 127,568

Note: NA means not applicable.

Note 6—Rental Income

In FY 2012, the OCC entered into a 20-year occupancy agreement with the CFPB for a portion of the building the OCC owns. The OCC also has non-cancellable operating leases for additional space in that building and continues to receive rental income from building tenants. These leases expire at various dates through 2021, and some provide renewal options. The leases provide for annual base rent and additional rents for building operating expenses. Some leases also provide for fixed future increases in rents over the term of the lease.

The future minimum rentals to be received through FY 2019 and thereafter, not including renewals, are shown below.

FY 2013 Future Rental Income (in Thousands)

Year	Amount
2014	\$ 12,313
2015	12,287
2016	12,534
2017	12,678
2018	12,934
2019 and beyond	197,461
Total	\$ 260,207

FY 2012 Future Rental Income (in Thousands)

Year	Amount
2013	\$ 12,058
2014	12,313
2015	12,287
2016	12,534
2017	12,678
2018 and beyond	210,394
Total	\$ 272,264

Note 7—Leases

The OCC leases equipment and office space for its headquarters operations in Washington, D.C., and for district and field operations. During FY 2013, the OCC entered into two new lease occupancy agreements that ranged between 48 and 169 months. All of the OCC's leases are treated as operating leases. All annual lease costs under the operating leases are included in the Statements of Net Cost.

The future minimum lease payments to be made through FY 2019 and thereafter, not including renewals, are shown below.

FY 2013 Future Lease Payments (in Thousands)

Year	Amount
2014	\$ 56,367
2015	56,242
2016	56,278
2017	51,504
2018	48,492
2019 and beyond	332,934
Total	\$ 601,817

FY 2012 Future Lease Payments (in Thousands)

Year	Amount
2013	\$ 68,431
2014	54,039
2015	49,694
2016	47,344
2017	48,914
2018 and beyond	378,267
Total	\$ 646,689

Note 8—Other Actuarial Liabilities

The OCC's other actuarial liabilities are reported on the Balance Sheets and include the following components.

Actuarial Liabilities (in Thousands)

Component	FY 2013	FY 2012
Post-retirement life insurance benefits	\$ 53,258	\$ 54,101
Federal Employees' Compensation Act	6,298	5,825
Pentegra Defined Benefit Plan	828	685
Total actuarial liabilities	\$ 60,384	\$ 60,611

Post-Retirement Life Insurance Benefits

The OCC sponsors a life insurance benefit plan for current and retired employees. The weighted-average discount rate used in determining the accumulated post-retirement benefit obligation was 5.1 percent. Gains or losses owing to changes in actuarial assumptions are amortized over the service life of the plan.

Net periodic post-retirement benefit costs for life insurance provisions under the plans include the components shown on this page. The total benefit

expenses are recognized as program costs in the Statements of Net Cost. Any gains or losses from changes in long-term assumptions used to measure liabilities for post-retirement life insurance benefits are displayed separately on the Statements of Net Cost, as required.

The following table presents a reconciliation of the beginning and ending post-retirement life insurance liability and provides material components of the related expenses.

Reconciliation of Beginning and Ending Post-Retirement Liability and the Related Expense (in Thousands)

Change in actuarial and accrued benefits	FY 2013	FY 2012
Actuarial post-retirement liability beginning balance	\$ 54,101	\$ 47,732
Actuarial expense		
Normal cost	1,226	1,153
Interest on the liability balance	2,351	2,280
Actuarial (gain)/loss		
From experience	2,621	(422)
From assumption changes	(5,238)	4,757
Prior service costs	0	0
Total expense	960	7,768
Less amounts paid	(1,803)	(1,399)
Actuarial post-retirement liability ending balance	\$ 53,258	\$ 54,101

Federal Employees' Compensation Act

The Federal Employees' Compensation Act provides income and medical cost protection to cover federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for OCC employees covered under the Federal Employees' Compensation Act are administered by the U.S. Department of Labor and later billed to the OCC. The FY 2013 present values of these estimated outflows are calculated using a discount rate in the first year of 2.7 percent for wage benefits and 2.3 percent for medical benefits, and rates of 3.1 percent and 2.9 percent, respectively, in subsequent years. For FY 2012 the discount rates for wage and medical benefits were 2.3 percent in the first year and 3.1 percent in subsequent years.

Pentegra Defined Benefit Plan

In accordance with the provisions of Dodd–Frank, in FY 2012 the OCC assumed the role of benefit

administrator for a legacy retirement system—the Pentegra DB Plan. The Pentegra DB Plan is a system in which all costs are paid by the employer into one general account. At retirement, employees may either receive a lump sum payment or opt for an annuity/lump sum split.

As of September 30, 2013 and 2012, the OCC's total liability to the Pentegra DB Plan was \$0.8 million and \$0.7 million, respectively.

Note 9—Net Position

Net position represents the net result of operations since inception and includes cumulative amounts related to investments in capitalized assets held by the OCC. The OCC sets aside a portion of its net position as contingency and asset replacement reserves for use at the Comptroller's discretion. In addition, funds are set aside to cover the cost of ongoing operations.

The figure below reflects balances for FY 2013 and FY 2012.

Net Position Availability (in Thousands)

Component	FY 2013	FY 2012
Contingency reserve	\$ 659,844	\$ 648,463
Asset replacement reserve	111,600	111,600
Set aside for ongoing operations:		
Undelivered orders	85,455	122,505
Consumption of assets	171,450	147,334
Capital investments	47,740	43,555
Net position	\$ 1,076,089	\$ 1,073,457

Note 10—Net Cost of Operations

The Net Cost of Operations represents the OCC’s operating costs deducted from assessments and fees paid by banks and other income earned. The operating costs include the gain or loss from actuarial experience and assumption changes per the guidance in SFFAS No. 33, “Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the

Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates.” The imputed financing sources for net cost of operations are reported on the Statements of Changes in Net Position and in Note 12, Reconciliation of Net Cost of Operations to Budget.

The following figure illustrates the OCC’s operating expense categories for FY 2013 and FY 2012.

Net Cost of Operations by Expense Category (in Thousands)

	FY 2013		FY 2012	
Personnel compensation and benefits	\$	691,853	\$	741,516
Contractual services		128,013		124,823
Rent, communication, and utilities		80,606		61,513
Travel and transportation of persons and things		60,746		55,082
Imputed costs		31,843		32,307
Depreciation		21,807		22,554
Other		21,008		16,141
Total	\$	1,035,876	\$	1,053,936

Note 11 – Imputed Costs and Financing Sources

In accordance with SFFAS No. 5, “Accounting for Liabilities of the Federal Government,” federal agencies must recognize the portion of employees’ pension and other retirement benefits to be paid by OPM trust funds. These amounts are recorded as imputed costs and imputed financing for other agencies. Annually, OPM provides federal agencies with cost factors for the computation of current year imputed costs. These cost factors are multiplied by

the current year salary or number of employees, as applicable, to provide an estimate of the imputed financing that OPM trust funds will provide for each agency.

The imputed costs categories for FY 2013 and FY 2012 are listed in the table below. These imputed costs are included on the Statements of Net Cost. The financing sources absorbed by the OPM are reflected on the Statements of Changes in Net Position and in Note 12, Reconciliation of Net Cost of Operations to Budget.

Imputed Costs Absorbed by the OPM (in Thousands)

Component	FY 2013		FY 2012	
Retirement	\$	16,677	\$	14,889
Federal Employees Health Benefits		15,119		17,375
Federal Employees’ Group Life Insurance		47		43
Total imputed costs covered by the OPM	\$	31,843	\$	32,307

Note 12—Reconciliation of Net Cost of Operations to Budget

The Reconciliation of Net Cost of Operations to Budget demonstrates the relationship between the OCC's proprietary accounting (net cost of operations) and budgetary accounting (net obligations) information. For FY 2013, the statement on the next page shows a total use of resources to finance activities of \$42.6 million. This is a net decrease

of \$64.9 million from FY 2012, when there were excess resources of \$107.5 million. This net decrease resulted primarily from a \$3.9 million increase in resources available (spending authority from offsetting collections) netted against the decrease of \$61.0 million in resources used (obligations incurred), and the \$0.4 million decrease in imputed financing offset with \$0.4 million transfer out without reimbursement in FY 2012.

Office of the Comptroller of the Currency Reconciliation of Net Cost of Operations to Budget

For the Years Ended September 30, 2013 and 2012

(in Thousands)

	FY 2013	FY 2012
Resources used to finance activities		
Budgetary resources obligated		
Obligations incurred	\$ 1,016,211	\$ 1,077,171
Less: Spending authority from offsetting collections	(1,005,453)	(1,001,516)
Net obligations	10,758	75,655
Other resources		
Transfer out without reimbursement	0	(433)
Imputed financing sources (Note 11)	31,843	32,307
Total resources used to finance activities	\$ 42,601	\$ 107,529
Resources used to finance items not part of the net cost of operations		
Change in budgetary resources obligated for goods, services, and benefits ordered but not yet provided	16,908	(24,170)
Resources that finance the acquisition of assets	(50,906)	(53,937)
Adjustment to net obligated balance that does not affect net cost of operations	0	433
Total resources used to finance items not part of the net cost of operations	(33,998)	(77,674)
Total resources used to finance the net cost of operations	\$ 8,603	\$ 29,855
Components of the net cost of operations that will not require or generate resources in the current period		
Components requiring or generating resources in future periods		
Change in deferred revenue	(2,076)	5,834
Increase in exchange revenue receivable from the public	(3,743)	2
Total components that will require or generate resources in future periods	(5,819)	5,836
Components not requiring or generating resources		
Depreciation and amortization	21,808	22,554
Net increase (decrease) in bond premium	4,611	(4,036)
Other	8	0
Total components that will not require or generate resources	26,427	18,518
Total components of net cost of operations that will not require or generate resources in the current period	20,608	24,354
Net cost of operations	\$ 29,211	\$ 54,209

Note 13—Contingent Liabilities

The OCC recognizes and discloses contingencies in accordance with SFFAS No. 12, “Recognition of Contingent Liabilities Arising From Litigation.” The OCC is party to various administrative proceedings, legal actions, and claims brought against the agency, including threatened or pending litigation involving federal employment claims, some of which may ultimately result in settlements or decisions against the federal government.

As of September 30, 2013, there were two contingencies for litigation involving the OCC where the risk of loss was reasonably possible. For these two contingencies, there was a reasonable possibility that the OCC could incur a loss of \$950,000, which comprises \$350,000 in back pay and \$600,000 in compensatory damages. As of September 30, 2012, the OCC reported contingencies for litigations totaling \$2,175,000 where the risk of loss was reasonably possible.

Independent Auditor's Report

Comptroller of the Currency
Office of the Comptroller of the Currency

Inspector General
Department of the Treasury

Report on the Financial Statements

We have audited the accompanying Balance Sheet of the Office of the Comptroller of the Currency (OCC) as of September 30, 2013, and the related Statements of Net Cost, Changes in Net Position, Budgetary Resources and Custodial Activity for the year then ended (hereinafter referred to as the financial statements) and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

OCC management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial statement audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered internal control relevant to the OCC's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the OCC's internal control. Accordingly, we express no such opinion. An audit also

includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Office of the Comptroller of the Currency as of September 30, 2013, and its net cost, changes in net position, budgetary resources and custodial activity for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of OCC as of September 30, 2012 were audited by other auditors who issued an unmodified opinion dated October 31, 2012.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information in Section Six, pages 40 through 45, and pages 72 through 77 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The information in the *Comptroller's Viewpoint*, and Sections One, Two, Three, Four, and Five of OCC's fiscal year 2013 Annual Report is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 20, 2013, on our consideration of the OCC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the OCC's internal control over financial reporting and compliance.

Williams, Ardley & Company - DC, LLP

Washington, D.C.

November 20, 2013



Independent Auditors' Report on Internal Control over Financial Reporting

Comptroller of the Currency
Office of the Comptroller of the Currency

Inspector General
Department of the Treasury

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No.14-02, *Audit Requirements for Federal Financial Statements*, the balance sheet and statements of net cost, changes in net position, budgetary resources, and custodial activity of the Office of the Comptroller of the Currency (OCC), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise OCC's basic financial statements, and have issued our report thereon dated November 20, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the OCC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the OCC's internal control. Accordingly, we do not express an opinion on the effectiveness of the OCC's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the OCC's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of the OCC's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the OCC's internal control. Accordingly, this communication is not suitable for any other purpose.

Willtams, Adley & Company-DC, LLP

Washington, D.C.

November 20, 2013



Independent Auditors' Report on Compliance and Other Matters

Comptroller of the Currency
Office of the Comptroller of the Currency

Inspector General
Department of the Treasury

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*, the balance sheet and statements of net cost, changes in net position, budgetary resources, and custodial activity of the Office of the Comptroller of the Currency (OCC), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise OCC's basic financial statements, and have issued our report thereon dated November 20, 2013.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether OCC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 14-02.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed no instances in which the OCC's financial management systems did not substantially comply with the (1) federal financial management system requirements, (2) applicable federal accounting standards, and (3) application of the United States Government Standard General Ledger at the transaction level.

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Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on the OCC's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the OCC's compliance. Accordingly, this communication is not suitable for any other purpose.

Willtams, Adley & Company - DC, LLP

Washington, D.C.

November 20, 2013

Other Accompanying Information

Performance Measures and Results

The OCC's FY 2013 performance measures, workload indicators, customer service standards, and results are presented in figure 9.

Figure 9: Performance Measures, Workload Indicators, Customer Service Standards, and Results

Strategic goal	Performance measure workload indicator customer service standard	FY 2010	FY 2011	FY 2012	FY 2013	
					Target	Actual ^a
I. A safe and sound national banking system and federal savings associations						
	Percentage of national banks and federal savings associations with composite CAMELS rating of 1 or 2 ^b	72%	75%	76%	90%	80%
	Rehabilitated problem national banks and federal savings associations as a percentage of the problem national banks one year ago (CAMELS 3, 4, or 5) ^b	22%	22%	27%	40%	34%
	Percentage of national banks and federal savings associations that are well capitalized ^b	91%	93%	92%	95%	94%
	Percentage of critically undercapitalized banks and federal savings associations on which responsible action is taken within 90 calendar days after they become critically undercapitalized	100%	100%	100%	100%	100%
	Average survey response that the report of examination clearly communicated examination findings, significant issues and the corrective actions management needed to take ^c	1.47	1.45	1.41	≤1.75	1.35
II. Fair access to financial services and fair treatment of national bank and federal savings association customers						
	Percentage of national banks and federal savings associations with consumer compliance rating of 1 or 2. For institutions with assets over \$10 billion these ratings will reflect only those laws and regulations for which the OCC has enforcement and supervisory authority	96%	96%	93%	94%	94%
	Percentage of community banks that are within one year of their first Intermediate Small Bank or Large Bank Community Reinvestment Act examination for which the OCC offers to provide consultation on community development opportunities	100%	100%	100%	100%	100%
	Percentage of consumer complaints closed within 60 calendar days of receipt	3%	44%	56%	80%	71%
	Number of consumer complaints opened/closed during the fiscal year ^d	80,336/ 79,660	85,127/ 85,128	66,161/ 59,130	45,000/ 50,000	43,370/ 44,274
III. A flexible legal and regulatory framework that enables national banks and federal savings associations to provide a full, competitive array of financial services consistent with statutory and prudential safety and soundness constraints						
	Percentage of external legal opinions issued within established time frames	85%	91%	90%	86%	96%
	Number of external legal opinions issued during the fiscal year	64	77	59	60	44
	Percentage of licensing applications and notices filed electronically	44%	53%	42%	35%	39%
	Number of licensing applications and notices filed electronically during the fiscal year	1,440	1,610	1,374	1,100	1,320
	Percentage of licensing applications and notices completed within established time frames	96%	97%	98%	95%	97%
	Number of licensing applications and notices completed during the fiscal year	1,344	1,382	1,614	1,600	2,378
	Average survey rating of the overall licensing services provided by the OCC ^e	1.15	1.31	1.22	≤1.5	1.25
IV. A competent, highly motivated, and diverse workforce that makes effective use of OCC resources						
	Total OCC costs relative to every \$100,000 in assets regulated	\$9.28	\$8.76	\$10.51	\$9.22	\$9.99

Note: Prior to FY 2012, OCC performance measures included only supervision of national banks. On July 21, 2011, the OCC assumed responsibility for regulating federal savings associations. Therefore, FY 2012 is the new baseline year for OCC, with new measures that include both national banks and federal savings associations. All data prior to FY 2012 include only national banks.

^a The FY 2013 performance numbers shown in bold italics are estimates. Some performance data are obtained from quarterly call reports from banks. The September 30, 2013, call reports are not due until 30 or 45 days after the end of the period. Additionally, examinations concluded late in the fiscal year are not finalized for another 30 to 60 days. As a result, complete fiscal year data are not yet available; therefore, estimates have been reported.

^b These performance measures for fiscal year 2013 are below target primarily because of the difficult economic situation the entire financial industry is facing. The OCC continues to closely monitor the capital levels and performance of all its banks and, when necessary, initiates formal and informal agreements to enhance its level of supervision.

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

^d The total complaint numbers include referrals to the Federal Reserve, FDIC, National Credit Union Administration, or any other agency or entity that is not a national bank, as well as those complaints serviced on behalf of the CFPB.

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

Improper Payments Elimination and Recovery Improvement Act

The Improper Payments Elimination and Recovery Improvement Act of 2012, as implemented by the OMB, requires federal agencies to review all programs and activities annually and identify those that may be susceptible to significant erroneous payments. The OCC analyzed payments (excluding payroll) made during FY 2013 and identified 159 erroneous payments requiring adjustments totaling \$151,336. In FY 2013, the definition of erroneous payments was expanded to include payments to employees, specifically travel reimbursements, which accounted for the increase since FY 2012. Erroneous payments are identified and monitored daily to ensure prompt

recovery. The underlying causes and contributing factors are identified quickly, and control measures are implemented to prevent additional erroneous payments.

The OCC corrected and recovered all erroneous payments made during the year. Figure 10 summarizes the OCC's erroneous payments for FY 2013 and FY 2012.

Figure 10: Erroneous Payments

	FY 2013	FY 2012
Number of payments	159	11
Dollar value of adjustments	\$151,336	\$573

Source: OCC data.

Assurance Statement

The Office of the Comptroller of the Currency (OCC) met the internal control requirements of the Federal Managers' Financial Integrity Act (FMFIA), the Federal Financial Management Improvement Act (FFMIA), and Office of Management and Budget (OMB) Circular A-123 during fiscal year (FY) 2013.

The OCC's systems of management control ensure that

- programs achieve their intended results;
- resources are used in accordance with the agency's mission;
- programs and resources are protected from waste, fraud, and mismanagement;
- laws and regulations are followed;
- controls are sufficient to minimize improper or erroneous payments;
- performance information is reliable;
- system security is in substantial compliance with relevant requirements;
- continuity of operations planning in critical areas is sufficient to reduce risk to reasonable levels; and
- financial management systems are in compliance with federal financial systems standards, i.e., FMFIA Section 4 and FFMIA.

I am providing unqualified assurance that the above listed management control objectives were achieved by the OCC without material weakness during FY 2013. Specifically, this assurance is provided relative to Sections 2 and 4 of the FMFIA.

The OCC conducted its assessment of the effectiveness of its internal control over financial reporting, which includes the safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, the OCC can provide unqualified assurance that its internal control over financial reporting was operating effectively as of June 30, 2013, and no material weaknesses were found in the design or operation of the internal control over financial reporting.

I am reporting substantial compliance with the requirements imposed by the FFMIA. In their FY 2012 report on internal control over financial reporting, our external auditors identified a significant deficiency related to security management, access

controls, configuration management, and contingency planning weaknesses. We have completed corrective actions for the security management, access controls, and configuration management recommendations. Our revised contingency and disaster recovery strategy extends over a consecutive four-year period beginning in FY 2014. It incorporates the incremental deployment of the technology systems, infrastructure, and hosting facilities necessary to sustain OCC priority business processes and functions in the midst of a disruptive event.

I am also providing unqualified assurance that our supervision programs achieved intended results despite the extraordinary challenges that continued to confront national banks and federal savings associations (collectively, banks).

The financial performance of federally chartered institutions on average has improved. Although the outlook for the U.S. economy is generally positive, vulnerabilities remain that could undermine the pace and strength of the recovery. The global economy will remain challenged due to stress from the Eurozone crisis, slowdown in Asia, and uncertainty about the U.S. fiscal situation. With the expectation of slow economic growth and uncertain regulatory and compliance landscapes, bank revenue will continue to be under significant pressure. Banks will be challenged to identify ways to grow revenue, prudently diversify balance sheets, effectively manage expenses, and generate acceptable returns on capital. As legislative and regulatory reform continues to take shape, banks are addressing the related challenges of how to respond and whether there is a need for fundamental shifts in their business models and strategic plans. Institutions will need to make well-informed strategic decisions that preserve their ability to compete and be profitable while prudently managing risks. Moreover, problem banks face additional challenges and tend to be concentrated in the states most adversely affected by the housing crisis. While still too high, the number of these banks is declining.

As part of our efforts to address these supervisory challenges, we have strengthened our staffing and internal processes through several program initiatives designed to enhance our allocation of resources, enhance metrics and analytics, and make process improvements. We have increased staffing levels

across our bank supervision program. We have had success with hiring experienced professionals in several specialty areas, including credit, operational risk, Bank Secrecy Act/Anti-Money Laundering (BSA/AML), and information technology. To develop and engage our examiners, we provide in-house and external formal training and rotational assignment programs that foster information sharing, on-the-job training, and leadership development.

Our EXCEL program, launched in FY 2012, was expanded and has “graduated” our first group of examiners. This accelerated development program provides the agency with a cadre of specialists positioned to step into future leadership roles. In completing the integration of our OTS and OCC examination workforce, we launched an aggressive cross-credentialing program that qualifies examiners to lead examinations of both national banks and federal savings associations. Process improvements in our large bank supervision have included realigning our team of lead experts under a senior manager. The lead experts also were given a broader role to ensure that we are achieving our objectives of internal and external collaboration to enhance resources, using supervision analytics in support of examination objectives and reporting, and providing expert guidance on the application of new rules and handbooks.

Consistent with our strategic initiatives, we have implemented work streams to achieve a more integrated “big picture” approach to supervision. This approach includes our process to integrate market-based and supervisory data and analyses more effectively into our supervision strategies and provide examiners and bankers with forward-looking perspectives on emerging risks and pressure points, both systemically and for individual organizations. We have placed additional emphasis on supervisory and analytical reporting to conduct ongoing supervision, peer analysis, and benchmarking across banks.

The National Risk Committee (NRC) continues to serve as the agency’s primary forum for monitoring the condition of the banking industry and advancing our efforts to identify threats to the system’s safety and soundness. We have continued to enhance our data collection, analytical tools, and technology. OCC examiners will benefit from the addition of

more refined analytical tools and more granular reporting from banks. The third edition of the NRC’s *Semiannual Risk Perspective* was issued in April. The report provides examiners and bankers with the OCC’s view, derived from supervisory activity and outside sources, of where systemic threats are building. It presents the empirical data that support our conclusions. The NRC’s internal issuances are also used by our examiners to identify and monitor risks.

We continue to enhance our collaboration and coordination with the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the Consumer Financial Protection Bureau to better leverage our resources and reduce regulatory burden on the institutions we supervise. We actively seek their input early in the process as we develop examination strategies and invite them to attend meetings of the NRC. We are also working to build and strengthen international regulatory relationships through participation in supervisory colleges and crisis management groups.

The OCC management team continues to focus on ensuring that issues, trends, and risks are discussed and, as appropriate, addressed in policy guidance and regulations. Among other issuances to communicate sound practices, we have published guidance on sound leveraged lending practices and proposed guidance on deposit advance products. Our examiners reinforce with banks the standards addressed in our capital planning guidance. Among several efforts to promote consistency in our supervision, we have made significant progress to integrate the OCC and OTS policy platforms. We also have made progress in updating the *Comptroller’s Handbook* booklets, which serve as the primary source of information for examiners and bankers on the OCC’s bank supervision program and sound risk management practices. In addition, a priority has been to enhance our banker and industry outreach activities that allow us to discuss and provide guidance on risk management practices and emerging risks.

We have communicated our elevated expectations for governance and risk management of large banks and are measuring progress in achievement in the following areas: Board willingness to provide credible challenge, talent management and compensation, defining and communicating risk appetite across

the company, development and maintenance of strong audit and risk management functions, and sanctity of the national bank charter. We assess and report progress on a quarterly basis, and our large bank quality assurance function has incorporated our supervision of these areas into its program. We continue to refine our guidance in these areas to promote consistency in interpretation and application, and we are working to incorporate these expectations into applicable guidance.

Pursuant to the Dodd–Frank Wall Street Reform and Consumer Protection Act, the OCC implemented the annual company-run stress test for national banks and federal savings associations with total assets greater than \$50 billion. In coordination with the Federal Reserve, in 2013 we implemented processes for examining the stress testing models and analytical frameworks used by banks to project revenues, expenses, losses, and capital ratios under hypothetical distressed economic conditions. The objective of this examination process is to ensure that each bank’s stress testing process and approach are credible and provide the OCC, the board of directors, and management with reliable, forward-looking risk information that can be used to assess capital adequacy. We summarized the results of our examinations in supervisory letters issued to each institution in April. Implementation of the Dodd–Frank Act stress testing requirements for institutions with total assets between \$10 billion and \$50 billion will commence in FY 2014.

The OCC is represented on various interagency and international committees, including the Federal Financial Institutions Examination Council (FFIEC), the Financial Stability Oversight Council, the Basel Committee on Banking Supervision, and the Financial and Banking Information Infrastructure Committee, and we maintain an active dialogue with other external groups, such as the Financial Accounting Standards Board. In July, we joined the other federal banking regulatory agencies in issuing comprehensive revisions to the capital rules of banks. The revisions incorporate changes to the international capital framework published by the Basel Committee as well as certain provisions of the Dodd–Frank Act. The rules serve to strengthen our nation’s financial system by reducing systemic risk and improving safe and sound operation of the banks we regulate.

In addition, the OCC continues to work closely with the federal banking agencies to share information on mortgage servicing supervisory activities. We continue to assess all mortgage servicers’ ability to achieve and maintain effective mortgage servicing, foreclosure, and loss mitigation processes. We have enhanced our centralized planning, monitoring, and tracking of activities associated with the amended consent orders to ensure that the largest regulated mortgage servicers under these orders are correcting all deficiencies in a timely and consistent manner.

The OCC’s efforts continue to focus on BSA/AML compliance and the USA PATRIOT Act, as well as monitoring compliance with economic and trade sanctions administered and enforced by the Office of Foreign Assets Control. The OCC is committed to assessing that institutions under our supervision have effective controls in place to safeguard them from use as vehicles to launder money for drug traffickers and transnational and other criminal organizations or to facilitate the financing of terrorist acts. BSA compliance is inherently difficult.

The OCC has made substantial progress in improving our supervision of BSA/AML. These efforts include updates to examiner training and guidance, and identifying steps that we can take in our examination process to obtain a holistic view of the bank’s BSA/AML compliance more promptly. We have established a cross-functional review team to ensure consistency in large bank BSA/AML supervision and enforcement. We also have established a Major Matters Supervision Review Committee to further strengthen and enhance the review process of significant enforcement cases, including large bank BSA/AML cases. This committee includes the most senior staff within the OCC. Consistent with new internal guidance, we more heavily weight BSA/AML in the management component of the CAMELS rating. Finally, we continue to maintain a dialogue with the Financial Crimes Enforcement Network and other regulatory bodies to ensure prompt revision to policies and guidance provided to OCC staff.

Another area of concern is the increase in the sophistication of cyber threats. Cyber-attacks are a significant threat to banks of all sizes. Adversaries have the motivation and resources to create attacks with significant destructive intent. Financial

institutions have significant dependencies on telecommunications and third parties, providing adversaries with opportunities for attacks that could disrupt multiple institutions. Our supervision strategy has been to ensure that institutions continue to focus on processes and controls to mitigate this rapidly changing threat through strong risk management and governance processes and controls, and through ongoing senior management and board involvement and support. In addition, we are strengthening processes to share threat information and mitigation strategies among agencies and financial institutions.

The OCC has issued guidance and alerts and has collaborated with the other agencies to address information systems and technology policy issues that can assist banks in managing their risks. In June, we hosted a national call for our examiners, followed by a similar call for community bankers, to increase awareness of the evolving cyber landscape, preparedness, and strategies for community banks. We have established a Senior Critical Infrastructure Officer in our policy unit to coordinate the OCC's response to the increasing sophistication of cyber threats and critical infrastructure vulnerabilities as well as lead efforts to enhance information sharing and coordination across federal banking and state regulatory agencies. The OCC chairs the Cybersecurity and Critical Infrastructure Working Group established by the FFIEC in June. The FFIEC formed the group to promote coordination and communications among its member agencies and build on existing efforts to strengthen the activities of other interagency and private sector groups. The OCC will also continue to strengthen partnerships with law enforcement, other federal agency stakeholders, and the intelligence community on common initiatives.

Analytical Basis of Assurance Statement

The OCC evaluated its management controls in accordance with the FY 2013 Secretary's Assurance Statement Guidance of July 1, 2013, and considered

- OMB Circular A-127, Financial Management Systems;
- OMB Circular A-130 Revised, Management of Federal Information Resources;

- OMB Circular A-11, Preparation, Submission, and Execution of the Budget;
- OMB Bulletin 06-03, Audit Requirements for Federal Financial Statements;
- Statement on Auditing Standards No. 115, Communicating Internal Control Related Matters Identified in an Audit; and
- Treasury Directive 40-04, Treasury Internal (Management) Control Program.

Information considered in our control assessment included

- FMFIA certifications submitted by each Executive Committee member;
- FFMIA certification submitted by our Chief Financial Officer;
- the OCC's Strategic Risk Management Plan;
- results of internal control testing under OMB Circular A-123, Appendix A;
- quality management program descriptions submitted by each Executive Committee department;
- results of control self-assessments completed by OCC managers in FY 2013;
- audit reports and evaluations issued by the Government Accountability Office (GAO) and the Office of the Inspector General;
- results of other external and internal reviews;
- assessment of the Improper Payments Elimination and Recovery Act submitted to the Department of the Treasury in July 2013;
- GAO Core Financial System Requirements Checklist;
- FFMIA Risk Model and Financial Management System Self-Assessment Checklists submitted to the Department of the Treasury in July 2013;
- unqualified and timely audit opinion on FY 2012 financial statements; and
- certified public accountant Williams Adley's October 2013 status report on the FY 2013 financial statement audit.



Thomas J. Curry
Comptroller of the Currency

Abbreviations

ABS	asset-backed securities
ASC	Accounting Standards Codification
BSA/AML	Bank Secrecy Act and Anti-Money Laundering
CAMELS	capital, asset quality, management, earnings, liquidity, and sensitivity to market risk
CFPB	Consumer Financial Protection Bureau
CMP	civil money penalty
CRA	Community Reinvestment Act
CSRS	Civil Service Retirement System
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
FBWT	fund balance with Treasury
FDIC	Federal Deposit Insurance Corporation
FERS	Federal Employees Retirement System
FFIEC	Federal Financial Institutions Examination Council
FFMIA	Federal Financial Management Improvement Act
FMFIA	Federal Managers' Financial Integrity Act
FY	fiscal year
GAAP	generally accepted accounting principles
GAO	Government Accountability Office
JPMC	JPMorgan Chase

LSS	Lean Six Sigma
MDI	minority-owned depository institution
MRA	matter requiring attention
NPR	notice of proposed rulemaking
NRC	National Risk Committee
OCC	Office of the Comptroller of the Currency
OM	Office of Management
OMB	Office of Management and Budget
OMWI	Office of Minority and Women Inclusion
OPM	Office of Personnel Management
OTS	Office of Thrift Supervision
QM	qualified mortgage
QRM	qualified residential mortgage
SAR	suspicious activity report
SFFAS	Statement of Federal Financial Accounting Standards
TRUPS	trust preferred securities
USC	U.S. Code

Index

A

accounting principles. *See* generally accepted accounting principles (GAAP)
accounting standards
 Accounting Standards Codification (ASC), 52, 54
 basis of, 51
 Federal Accounting Standards Advisory Board (FASAB), 51
accounts receivable, 52, 56
anti-money laundering (AML). *See* Bank Secrecy Act/Anti-Money Laundering
asset quality
 in historical perspective, 14
assets
 assessing quality of, 14
 composition of, 44
 of OCC, 43–44
Assistant National Bank Examiner recruitment program, 41
assurance statement, 74–77

B

bank capital
 generating returns on, 74
 in historical perspective, 10
 at OCC-supervised banks, 5
 strengthening of, 8, 10–11
bank management
 in historical perspective, 17
Bank Control Act, 39
BankNet, 6
Bank Secrecy Act/Anti-Money Laundering (BSA/AML), 4, 20, 22, 75, 76
Basel Committee on Banking Supervision, 8, 10, 76
benefits. *See* employee benefits
Bloom, Thomas R., 34, 36, 40–41
budgetary resources, 42, 49

C

CAMELS, 11, 22, 72, 76
capital. *See* bank capital
charge-off rates, 31, 32
chartering of banks, 17
Chase, Salmon P., 2, 27, 28
Chief Counsel's Office
 Amy Friend, 34–35
Chief Financial Officer

- Thomas R. Bloom, 36
 - letter from, 40–41
- Chief National Bank Examiner
 - John C. Lyons Jr., 34, 35
- Chief of Staff
 - Paul M. Nash, 34
- civil money penalties (CMP), 18, 44, 54, 56
- Civil Service Retirement System (CSRS), 53
- Cofield, Joyce, 24, 36
- commercial real estate. *See* real estate, commercial
- Community Affairs Department, 34
- community banks
 - and capital rules, 5
 - information systems and technology issues for, 77
 - number of OCC-supervised, *inside front cover*
 - OCC supervisory programs, 5–6, 11–13
 - revenue challenges for, 31
 - stress testing, 1
- Community Development Financial Institutions Fund, 13
- Community Reinvestment Act (CRA), 1, 21, 22, 39
- compensation
 - Federal Employees' Compensation Act, 60
- Comptroller of the Currency. *See* Curry, Thomas J.
- Comptroller's Viewpoint, 4–7
- Condition of the Federal Banking System. *See* federal banking system
- consent orders, 76
- Consumer Financial Protection Bureau (CFPB), 5, 15, 22
- contingent liabilities, 64
- Coolidge, Calvin, 29
- cost of operations, 43, 61–63
- credit
 - staffing levels related to, 74–75
- credit quality, 31
- credit rating agencies, 15
- credit risk, 14
- Curry, Thomas J., 8, 9, 13, 18, 20, 21
 - assurance statement, 74–77
 - biography of, 33
 - on BSA/AML supervision, 20, 22
 - on capital rules, 11
 - Comptroller's Viewpoint, 4–7
 - on consumer protection, 22
 - on CRA, 21
 - and information security, 19
 - and loan-loss reserves, 16
 - on mortgage servicers, 18

- on OCC's function, 22
- on OCC's heritage, 9
- custodial revenues and collections, 50, 54
- Customer Assistance Group, 36
- cyber-attacks, 19, 76–77
- Cybersecurity and Critical Infrastructure Working Group, 77

D

- data analytics, 40
- Dawes, Charles G., 28–29
- debt collection, 24
- dedicated collections, 52, 54
- denial-of-service attacks, 19
- deposit advance products, 24, 75
- diversity, 23
- diversity, OMWI and. *See* Office of Minority and Women Inclusion (OMWI)
- Dodd–Frank Wall Street Reform and Consumer Protection Act of 2010
 - and administration of retiree benefits, 60
 - and capital standards, 10
 - and community banks, 11–12
 - and consumer protection, 22
 - implementation, 5
 - lending limits rule, 17
 - mortgage rules, 15–16
 - OCC and OTS integration, 2
 - and OMWI, 23
 - section 165(i), 13
 - section 610, 17
 - section 941, 15–16
 - stress testing rule, 13–14, 76

E

- earmarked funds. *See* dedicated collections
- economic recovery, 4, 8, 31–32, 74
- Economics Department
 - David Nebhut, 35
- employee benefits, 53–54
 - Federal Employees' Group Life Insurance (FEGLI), 53
 - Federal Employees Health Benefits (FEHB), 53
 - OCC 401(k) plan, 53
 - postretirement life insurance benefit plan, 59
 - retirement plans, 53
 - Thrift Savings Plan, 53
- enforcement actions, 39
- Enterprise Governance, 26, 36
- enterprise risk, 11

entity assets, 44
equal employment opportunity, 36
erroneous payments, 40, 73

F

federal banking system

- BSA/AML compliance, 76
- condition of, 30–31
- Dodd–Frank implementation, 5, 76
- loan performance, 32
- operating profit, 31–32

federal branches

- number of OCC-supervised, *inside front cover*

Federal Deposit Insurance Corporation (FDIC)

- Thomas J. Curry and, 33
- Paul M. Nash and, 34

Federal Employees' Compensation Act, 60

Federal Employees' Group Life Insurance (FEGLI), 53

Federal Employees Health Benefits (FEHB), 53

Federal Employees Retirement System (FERS), 53

Federal Financial Institutions Examination Council (FFIEC), 19, 33

Federal Financial Management Improvement Act (FFMIA), 74

Federal Managers' Financial Integrity Act (FMFIA), 74

Federal Reserve

- capital rule revisions, 10
- commercial real estate study, 16
- foreclosure resolutions, 4–5
- and mortgage servicers, 18
- qualified residential mortgage exemption, 16

federal savings associations

- Community Affairs Department and, 34
- Comptroller of the Currency's duties for, 33
- examiner qualification for, 75
- number of OCC-supervised, *inside front cover*
- and OCC and OTS integration, 75
- OCC assessments against, 56
- OCC funding from, 43, 49, 53, 56
- OCC mission, 1, 2, 51
- OCC performance measures, 72
- OCC supervision costs, 43
- OCC supervision of, 5–6, 74, 75
- Office of the Chief Accountant's responsibilities, 35
- stress testing for, 76

Financial Accounting Standards Board (FASB), 16

Financial Crimes Enforcement Network (FinCEN), 20, 76

financial crisis. *See also* economic recovery

- and capital standards, 5
- and commercial real estate, 16
- and importance of banking system, 4
- and risks to banking system, 4

Financial Management Discussion and Analysis, 40–77

- assets, 43–44
- assurance statement, 74–77
- balance sheets, 46
- budgetary resources, 49
- cost of operations, 43, 61
- erroneous payments, 73
- financial statements, 46–49
- financial summary, 42
- fund balance with Treasury, 54
- Improper Payments Elimination and Recovery Act, 73
- imputed costs, 61
- independent auditor’s report, 65–71
- investments, 44, 55
- key components of financial condition, 43
- leases, 57
- letter from Chief Financial Officer, 39–40
- liabilities, 43, 45
- net position, 45, 48, 60
- notes to financial statements, 51–64
- other actuarial liabilities, 43, 46, 59
- performance measures and results, 72–73
- property and equipment, net, 57
- reconciliation of net cost of operations to budget, 62, 63
- rental income, 58
- revenues, 43–44
- significant accounting policies, 51–54
- statements of budgetary resources, 49
- statements of changes in net position, 48
- statements of custodial activity, 50
- statements of net cost, 47

Financial Services Information Sharing and Analysis Center, 19

financial statements, 46–49

- balance sheets, 46
- notes to, 51–64
- statements of budgetary resources, 49
- statements of changes in net position, 48
- statements of net cost, 47

Flood Disaster Prevention Act, 22

401(k) plan, 53

Friend, Amy, 35–36

fund balance with Treasury (FBWT), 44, 54

funding of OCC operations, 2, 43–44

G

generally accepted accounting principles (GAAP), 42, 51
Great Depression, 29

H

Hattix, Larry L., 6, 26, 34, 36
home equity lines of credit, 32
Home Owners' Loan Act, 2
Hoover, Herbert, 29
housing, 4, 5. *See also* mortgage(s)
housing crisis, 74
Howard, Samuel T., 28
HSBC Bank USA, 18

I

Improper Payments Elimination and Recovery Act of 2012, 73
imputed costs and financing sources, 61
independent auditor's report, 65–71
Independent Foreclosure Review, 18
information security, 19, 76–77
information technology
 investments, 45
 OCC Information Technology Services, 35, 40
 staffing levels related to, 75
internal controls, 20, 22, 40, 74
investments and related interest, 44, 52, 55

J

JPMorgan Chase (JPMC), 17
Justice, U.S. Department of, 17

K

Kelly, Jennifer C., 34, 35
Kennedy, John F., 30

L

large banks
 BSA/AML enforcement, 76
 capital requirements, 5
 corporate oversight and governance, 24–25, 75–76
 examiner staffing, 74–75, 76
 heightened expectations, 6, 24–25, 75–76
 number of OCC-supervised, *inside front cover*
Large Bank Supervision, Department of

- Martin Pfinsgraff, 34, 35
- Law Department. *See* Chief Counsel's Office
- Lean Six Sigma (LSS), 40–41
- leases, 58
- lending limits, Dodd–Frank rule on, 17
- Levonian, Mark, 34
- liabilities, 52–53
 - composition of, 45
- licensing
 - actions and timelines, 38
 - applications presenting Community Reinvestment Act issues decided, 39
 - change in Bank Control Act, national banks, 39
 - corporate application activity, 37
 - department of, 34
 - and enforcement measures, 37–39
- life insurance, 53–54, 59
- Lincoln, Abraham, 1, 9, 27
- liquidity
 - in historical perspective, 12
- loan losses, 16, 31
- loans, 14–15, 22, 31, 32. *See also* mortgage(s)
- Lyons, John C., Jr., 34, 35

M

- Major Matters Supervision Review Committee, 76
- market risk, 1, 11
- McCulloch, Charlie, 28
- McCulloch, Hugh, 1–2, 17, 27–28
- McCulloch, Susan, 27, 28
- McKinley, William, 28
- Midsize and Community Bank Supervision, Department of
 - Jennifer C. Kelly, 34, 35
- midsize banks
 - number of OCC-supervised, *inside front cover*
- Minority Depository Institutions Advisory Committee, 6, 12–13
- minority-owned banks, 12–13
- minority-owned businesses, 23
- minority-owned depository institutions (MDI), 12–13
- money laundering. *See* Bank Secrecy Act/Anti-Money Laundering
- mortgage(s)
 - and bank capital requirements, 10
 - correcting deficiencies of servicers, 76
 - at OCC-supervised banks, 5, 14–15, 76

Morton, Oliver P., 28
Mutual Savings Association Advisory Committee, 6, 12

N

Nash, Paul M., 34
National Bank Act (1864), 1, 9
National Bank Examiner, 29, 41
National Currency Act (1863), 1, 9, 27, 28
National Diversity Internship Program, 23
National Risk Committee (NRC), 14, 77
Nebhut, David, 35
NeighborWorks America, 1, 33
net cost of operations, 43, 61–63
net income, OCC-supervised banks, 31
net position, 45, 48, 60
non-entity assets, 44
noninterest expenses, 31
noninterest income, 31
nonperforming loans, 14
notices of proposed rulemaking (NPR), 10, 11

O

Obama, Barack, 8
Office of Enterprise Governance and Ombudsman, 26
 Larry L. Hattix, 6, 36
Office of Foreign Assets Control, 76
Office of Foreign Funds Control, 30
Office of Management (OM)
 Bloom, Thomas R., 36, 40–41
 Lean Six Sigma process improvement, 40–41
Office of Minority and Women Inclusion (OMWI), 23, 36
 Cofield, Joyce, 23, 36
Office of Personnel Management (OPM), 53
Office of the Chief Accountant, 35
Office of the Comptroller of the Currency (OCC)
 about the, 1–2
 budget authority, 42, 49, *inside front cover*
 Chief Counsel's Office, 34–35
 Chief National Bank Examiner's Office, 35
 Chief of Staff, 34
 consolidation of office locations, 40
 consumer complaints closed or referred, 72
 consumer complaints opened, 72
 Economics Department, 35
 enforcement actions (FY 2013), 39
 funding sources, 43–44

- at a glance, *inside front cover*
- history, 1–2, 9
- important figures in history of, 27–30
- internal control, 68–69
- licensing and enforcement, 37–39
- Midsize and Community Bank Supervision Department, 35
- mission, 1
- mortgage servicer enforcement actions, 18–19
- number of employees, *inside front cover*
- office locations, *inside front cover*
- Office of Enterprise Governance and Ombudsman, 36
- Office of Management, 36
- Office of Minority and Women Inclusion, 36
- operational risk enforcement actions, 18
- organization of, 33–36
- regulatory powers of, 1–2
- revenue derived from assessments, 43–44, *inside front cover*
- self-assessment and self-improvement, 25–26
- Office of Thrift Supervision (OTS)
 - integration, 2, 43, 53, 56, 75
 - Mutual Savings Association Advisory Committee, 6
- Ombudsman. *See* Office of Enterprise Governance and Ombudsman
- operational risk, 11, 18
 - staffing levels related to, 74–75
- operations, cost of. *See* cost of operations

P

- Panic of 1893, 28
- Pentegra Defined Benefit Plan, 43, 53, 60
- performance measures and results, 72–73
- Pfinsgraff, Martin, 34, 35
- post-retirement life insurance benefit plan, 53–54, 59
- procurement process, 40
- property and equipment, net, 52, 57
- purchase cards, 40

Q

- qualified mortgage rule (QM), 5, 16
- qualified residential mortgages (QRM), 16

R

- real estate
 - commercial, 6, 14, 17
 - residential, 5 (*see also* mortgage(s))
- reconciliation of net cost of operations to budget, 62–63
- Reconstruction Finance Corporation, 29

Regulation Z (Truth in Lending Act), 15
rental income, 58
reserves, 45. *See also* bank capital
retirement plans, 53
revenues
 components of total revenue, 43–44, 51–52
 at OCC-supervised banks, 31
risk-based supervision, 11
risk management
 information systems and technology issues, 76–77
 for large banks, 24–25, 75–76
rulemaking. *See* Dodd–Frank Wall Street Reform and Consumer Protection Act of 2010

S

Saxon, James J., 30
Senate Committee on Banking, Housing, and Urban Affairs, 34
Senior Critical Infrastructure Officer, 77
service-disabled veterans, companies owned by, 40
Servicemembers Civil Relief Act (SCRA), 22
Small Business Administration, U.S., 12
small business contracts, 40
small disadvantaged businesses, 40
Stewart, Adelia M., 29
Strategic Initiatives, 25–26
stress testing, 13–14, 76
supervision by risk, 11
suspicious activity reports (SAR), 20, 22

T

Targeted Investment Program, 8
terrorism, money laundering and, 20, 76
thrifts. *See* federal savings associations; Office of Thrift Supervision
Thrift Savings Plan, 53
Treasury, U.S. Department of the, 1, 5, 44, 51, 52. *See also* fund balance with Treasury
 origins of OCC, 9
trust preferred securities (TRUPS), 10
Truth in Lending Act Regulation Z, 15

U

Uniform Standards of Professional Appraisal Practice, 15
USA PATRIOT Act, 76

V

Volcker rule, 5

W

Waters, Maxine, 18

women-owned businesses, 23, 40

World War I, 29

World War II, 30



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