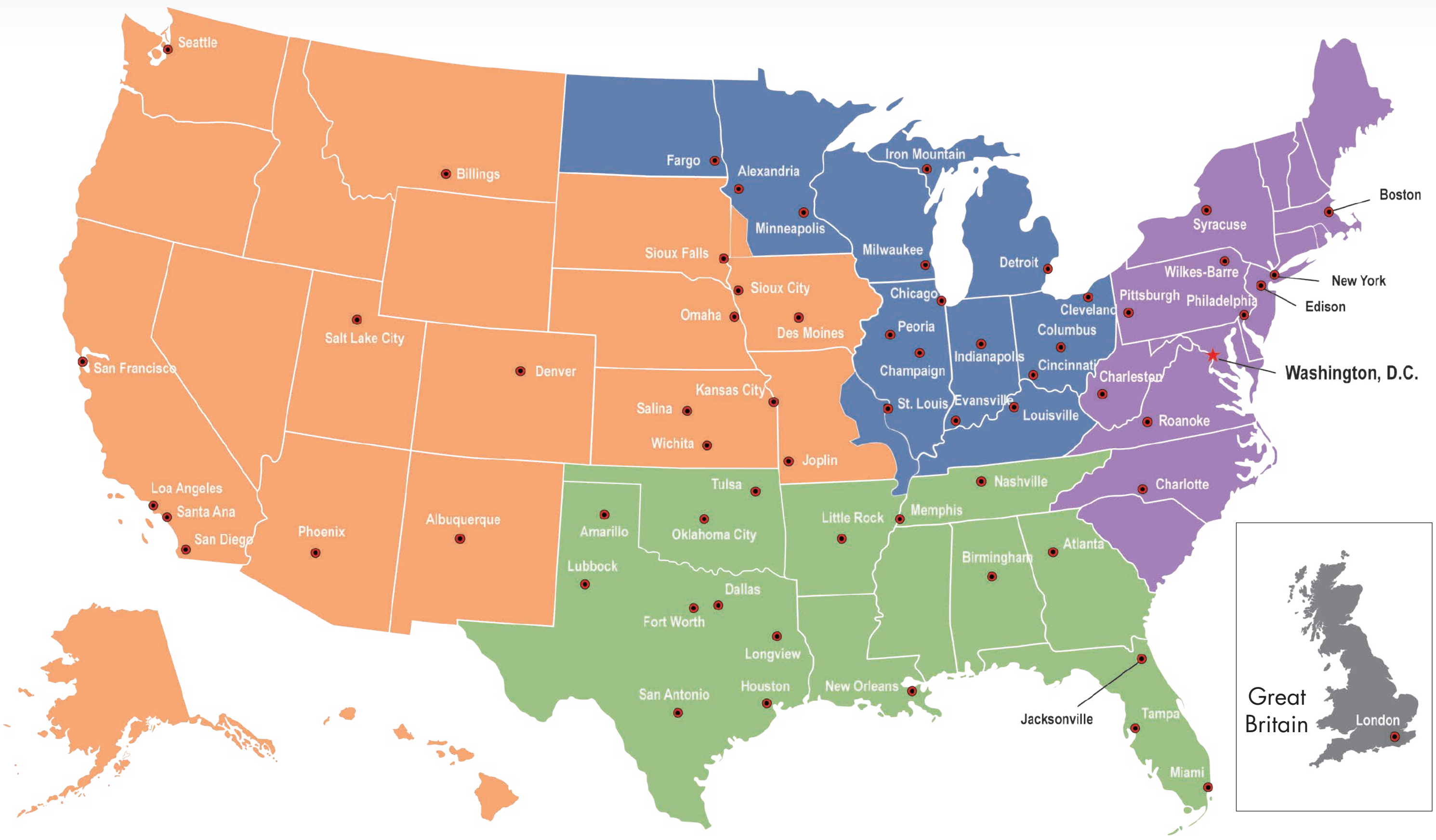
Office of the
Comptroller of the Currency

ANNUAL REPORT

2015

SAFE
SOUND
FAIR

Office of the COMPTROLLER OF THE CURRENCY LOCATIONS



Western District
Central District
Southern District
Northeastern District

FEDERAL BANKING SYSTEM AT A GLANCE

All OCC-supervised institutions, total assets	$11.1 trillion
All OCC-supervised institutions, share of total U.S. banking assets	68.3%
All OCC-supervised institutions	1,535
Large banks	36
Midsize banks	37
Community banks	998
Federal branches	49
Federal savings associations	415

THE OCC AT A GLANCE

Employees (full-time-equivalents)	3,959
Office locations*	64
Budget authority	$1.091 billion
Revenue derived from assessments	97.2%
Consumer complaints opened	22,468
Consumer complaints closed or referred	25,263

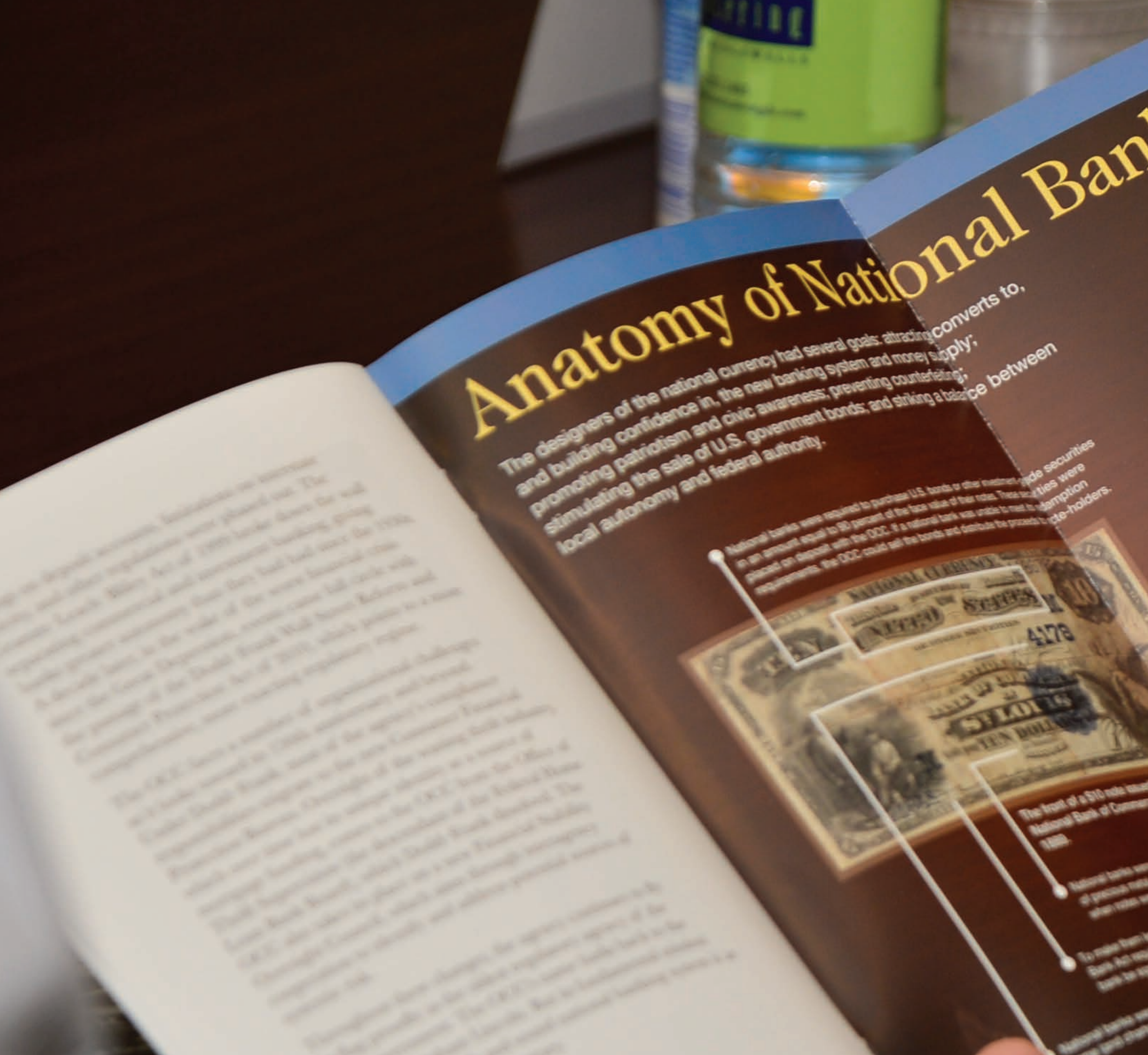
* This number does not include the multiple locations the OCC maintains in some large cities. In addition, the OCC has a continuous, on-site presence at large banks under its supervision.

OFFICE OF THE COMPTROLLER OF THE CURRENCY

ANNUAL REPORT

2015

SAFE
SOUND
FAIR



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, 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.


To foil counterfeiters, national bank notes were intentionally detailed and ornate. In addition, several denominations of national currency contained lengthy extracts from the law that assigned penalties for counterfeiting.

Contents

VISION

The OCC is a preeminent prudential supervisor that adds value through proactive and risk-based supervision; is sought after as a source of knowledge and expertise; and promotes a vibrant and diverse banking system that benefits consumers, communities, businesses, and the U.S. economy.

CORE VALUES

Integrity
Expertise
Collaboration
Independence

"The men and women of the OCC have played an important role in the financial recovery"

Thomas J. Curry, Comptroller of the Currency

Comptroller's Viewpoint

With each year's Annual Report, the OCC closes out another chapter in its long history and opens the way to the next. I am pleased to offer a few thoughts on the past year and on the challenges and opportunities that await us in the year ahead.

Among the highlights of 2015 were our efforts to curb the growth of the riskiest types of lending and to assure compliance with banking rules and regulations, especially national security-sensitive Bank Secrecy Act/Anti-Money Laundering (BSA/AML) requirements. We took aggressive action in partnership with other government agencies to deal with one of the foremost operational risks the industry faces today: cybersecurity. In addition, we worked to ensure that banks complied with consumer protection laws and treated their customers fairly. We took steps to help strengthen and support community banks, which are vital to families and communities across America. The OCC joined other Federal Financial Institutions Examination Council (FFIEC) supervisory agencies in undertaking a broad review of the regulatory rulebook to identify and eliminate duplicative, dated, and unnecessary regulations, with a particular focus on relieving burden on community banks. Finally, the OCC completed its work on some of the more complex mandates that remained under the Dodd–Frank Wall Street Reform and Consumer Protection Act of 2010.

This year's report, like those before it, provides a detailed summary of these activities and accomplishments, along with information about the condition of the federal banking system and the OCC. As with each of the annual reports we have released since 1863, this one will advance the national dialogue on the issues confronting the economy and the banking system.

I cannot think of a more opportune time to hold that discussion. Six years into the current recovery, we're seeing worrisome signs of rising credit risk. On the one hand, banks are generally healthy, with steady loan growth and relatively few problem assets. On the other hand, they are finding it increasingly difficult to sustain this growth. To meet increased competition, especially from nonbank providers, some banks are targeting less creditworthy customers and relaxing terms and conditions. If these loans deteriorate, and if banks do not have the appropriate risk management processes and structures in place to measure, monitor, and control the increased credit risk, banks could be forced to curtail lending even to creditworthy customers, adversely affecting the broader economy.

Managing the excesses of the credit cycle continues to be one of the great challenges facing bank supervisors. Past experience has demonstrated how important it is to focus on emerging risks early in the cycle, using supervisory processes to help banks manage and mitigate those risks while they are still healthy enough to do so.

The OCC continues to step up its efforts in this regard. We are focusing particularly on developments relating to rising credit and concentration risk, making sure that banks understand and take steps to properly manage them.

It's easy to understand why bankers may be tempted to loosen their lending standards if the alternative is to concede potential customers to the competition. Banks should consider the meaning of success, both in the short and long term, by rewarding behaviors that contribute to the institution's long-term safety and soundness and not just those that add to its bottom line in the near term. I recently heard of a banker who took his team members out to celebrate a deal not made because the bank refused to waive its requirements in order to clinch it.

In this context, it's important to recognize that there are two kinds of competition. What I refer to as negative competition is the type that can lead to lowering standards and adopting shortcuts in risk management and controls. Positive competition, on the other hand, fosters innovation in product quality, customer service, and managerial efficiency. Banks that engage in responsible innovation are likely to remain relevant to their customers and secure in their role in the payments and credit systems.

Fortunately, banks are no strangers to innovation. People who see banks as relics of the paper-based past overlook the fact that banks have been among the foremost investors in and developers of financial technology. Banks introduced ATMs, automatic billing, and automated bill payment, and most recently developed applications that allow customers to deposit a check by using the camera on a smartphone. Banks are also working in their own laboratories and technology incubators to come up with innovative ways to improve services to their customers. Today, banks are partnering with leading technology companies to develop the applications of tomorrow—applications that could eventually prove to be as revolutionary in their own way as the technology we rely on today.

I am not suggesting that keeping up with the competition from financial technology companies ("fintechs") and neo-banks (Internet-only institutions delivering bank-like services) will be easy. Start-ups with a handful of employees and one or two bright ideas underwritten by angel investors or crowd-funders have the ability to move faster than larger and more hierarchical organizations operating through established financial markets. In addition, the newcomers typically operate without regulators looking over their shoulders—an attribute sometimes touted by those who organize and invest in these ventures.

As regulators, it is our responsibility to ensure that new financial products are properly vetted and supervised to ensure they don't adversely affect the integrity of the financial system or introduce consumer abuses. Some financial products can even have national security implications. For example, Bitcoin and other virtual currencies can provide anonymity that is often valued in financial transactions. But it's possible that virtual currencies will become a vehicle of choice for criminal money laundering and terrorist financing unless subject to effective oversight.

However, we don't want regulation to be perceived as an obstacle to responsible innovation. Accordingly, the OCC is developing a framework to evaluate new and innovative financial products and services. Among the actions we're considering is an office dedicated to innovation, in the hope that with greater capacity to identify and understand new trends and new technology, we'll be able to evaluate those products that require regulatory approval more quickly and identify any risks associated with them more effectively.

Banks have some significant advantages of their own—including regulation. Millions of Americans are avid users of financial technology, priding themselves on how long it's been since they last visited a branch or wrote a check. However, tech-savvy consumers understand as well as anyone that the new world of online banking carries its own set of risks: fraud, unauthorized disclosure of confidential information, and computer viruses and malware introduced through financial software. While regulated banks are not immune from these risks, customers can take comfort knowing that banks operate under the professional prudential supervision of the OCC. Given the uncertainties of the virtual marketplace, supervision adds value.

Banks also have the benefit of name recognition and marketing prowess, which are products of years of experience, investment, and building trust. Customers know whom they are dealing with and where they can turn if they have a problem, which is not uncommon when new tools and products are involved. Banks are full-service providers, with names people recognize and reputations built over years. These are not insignificant competitive advantages.

Some of the innovations the OCC supports and banks are adopting are more common sense than high tech. For example, there is real and largely untapped potential for community banks to collaborate in ways that can help them achieve economies of scale enjoyed by their larger competitors without compromising their independence. In the same manner, two or more banks might pool their capital to take advantage of lending opportunities that would otherwise exceed their means. In 2015, the OCC issued a paper on collaboration that sets forth a number of these ideas, and you can read more about it later in this *Annual Report*.

It's important that banks continue to think outside the box. It's just as important that their regulators think outside the box as well. In the run-up to the financial crisis, complex products were introduced faster than state and federal regulators could absorb and comprehend them. With hindsight, it's clear that banks didn't fully understand the risks some of these products entailed. But then again, neither did their regulators, and that is our responsibility.

Since I became Comptroller in 2012, the OCC has worked hard to build technical expertise, improve supervisory policies and procedures, and upgrade operational readiness. We've often done these things in innovative ways, as exemplified by the 2013 peer review conducted at our invitation by a team of international bank supervisors. Our objective for them was to provide an independent perspective on how we supervise large and midsize banks and thrifts. Their findings and recommendations have led to significant improvements in systemic risk identification, quality control processes, and resource utilization. Equally important is that we went outside our comfort zone to obtain vital insights that we might not have developed internally.

We have bolstered our knowledge base by creating teams of specialists in several important areas. The payments industry is seeing particularly rapid change, as credit cards, debit cards, and smartphones increasingly supplant cash, although they are unlikely ever to do so entirely. We responded by establishing a Payments Risk policy group, which provides examination support, training, and guidance for our examiners. It also acts as a resource for OCC-supervised institutions. This follows the 2012 creation of

In 2015, the OCC launched the Comptroller's Speaker Series, which brings prominent leaders to the agency to share insights on issues important to the OCC, its employees, and the federal banking system. In May, the series featured Congressman John R. Lewis (left), who spoke movingly of his experiences as a leader in the U.S. civil rights movement. In September, the OCC welcomed U.S. Treasury Secretary Jack Lew, whose remarks emphasized the importance of the OCC's role in supervising the federal banking system. Photos by Sylvia Johnson (left) and Ron White (right)

a similar Critical Infrastructure policy group, which develops and coordinates the OCC's cybersecurity policy initiatives.

These initiatives are important, but they are only the beginning. One of our strategic priorities over the next 12 months is to enhance the OCC's value to the American people and the banks we supervise, especially by encouraging responsible innovation. Another priority seeks to match the OCC workforce to evolving agency needs. A number of initiatives are in the works, and I look forward to reporting on them in next year's *Annual Report*.

Another product of the international peer review was a recommendation that the OCC sharpen its focus on its risk assessment capabilities, both in regard to its supervisory and its managerial responsibilities. We have done just that. We created a new Supervision Risk Management team, which works with our National Risk Committee (NRC) to monitor the condition of the federal banking system and emerging threats to the system's safety and soundness. At the same time, we turned our attention to the agency's ability to assess and manage the risks we face as an agency. To that end, in 2015 we established an Office of Enterprise Risk Management and created the position of Chief Risk Officer to ensure that the level of enterprise risk management (ERM) at the OCC is commensurate with the ERM practices we expect from our banks.

Not many government agencies perform this kind of risk assessment. But then again, not many government agencies are like the OCC. From the beginning, we have been endowed with considerable independence to do our work in a professional manner. That's a special trust that comes with a special responsibility to the American people. It is a trust we uphold by committing ourselves to the same high standards of self-governance and accountability that we demand of the institutions we supervise.

Thomas J. Curry
Comptroller of the Currency

Section One

Year in Review

The federal banking system remained safe and sound in fiscal year (FY) 2015. Most measures of condition—including noncurrent loans, problem banks, loan growth, and risk-based capital ratios—improved over the previous year. Merger and acquisition activity also increased in 2015.

The banking sector was aided by the growth of the U.S. economy and the industry's sharpened focus on risk management, regulatory compliance, and the development of innovative products and services. The OCC supported these efforts in ways that are detailed in this report.

Regulation affects the industry's safety and soundness in multiple ways. The OCC provides ground rules to ensure that banks operate within the law and conform to sound professional and ethical standards. The OCC flags emerging risks, disseminates best practices, and, through its supervisory activities, identifies weaknesses in a bank's operations and condition so that necessary corrective action can be taken in a timely and effective manner.

The OCC strives to ensure that the regulations it develops and implements are effective and judicious, striking a reasonable balance between the cost of regulatory compliance and the regulations' public benefit. The agency's approach involves tailoring supervisory strategies to the varying circumstances of banks of different sizes, locations, and business strategies. The OCC also strives to support responsible innovation by the industry—innovation that meets evolving needs for financial products and services and is managed commensurate with any increased risk. Importantly, responsible innovation can support broader access to financial services.

The OCC undertook a number of internal policy and process improvements to support the agency's mission: ensure that national banks and federal savings associations (FSA) operate in a safe and sound manner, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations. This report highlights some of the year's most innovative approaches to OCC management and operations.

The OCC's Strategic Plan: Formulation

In September 2014, the OCC published its five-year strategic plan, which sets a course for the agency through FY 2019. The plan, as Comptroller Curry wrote, helps to "ensure we have the foresight, resolve, and capability to identify, understand, and manage the emerging challenges" facing the federal banking system and the OCC itself.[1]

The plan establishes three strategic goals, a set of strategies to accomplish them, and a system for evaluating progress. The first of those goals speaks to the OCC's goal of ensuring a vibrant and diverse system of national banks and FSAs that supports a robust U.S. economy. Four strategic objectives support this goal:

[1] OCC, *The OCC's Strategic Plan, Fiscal Years 2015–2019*, September 2014. 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.

- Provide high-quality, effective, and efficient supervision that is both proactive and risk-based to promote a safe and sound system for the delivery of banking services.
- Ensure that regulated entities treat consumers fairly and provide them with fair access to financial services.
- Provide a coordinated supervisory, regulatory, and legal framework that encourages regulated entities to innovate and adapt in response to a changing environment.
- Collaborate with other regulators both domestically and internationally to better identify systemic risk and support efficient financial systems.

The OCC's approach to supervision emphasizes the importance of strong internal controls and risk management

The second of the agency's strategic goals is to achieve "One OCC" focused on collaboration, innovation, coordination, and process efficiency. Three strategic objectives support this goal:

- Cultivate a cohesive, highly engaged, and diverse workforce committed to a shared mission and purpose.
- Embrace diversity of thought, experience, and knowledge in making important decisions.
- Operate under sound corporate governance, internal control, and stewardship principles.

Finally, strategic goal number three seeks to ensure that the OCC is firmly positioned to continue to operate independently and effectively into the future. To accomplish that goal, the strategic objective aims to leverage the OCC's expertise and resources in innovative ways that establish the OCC as a thought leader within the financial services sector.

The OCC's Strategic Plan: Implementation

In April, Comptroller Curry named a Deputy Comptroller to lead the new Office of Strategic Management, which is charged with developing the structure and practices needed to implement the five-year *Strategic Plan*.[2] An important first step was identifying shorter-term priorities. Internal deliberations yielded five such priorities. Five teams, each headed by a senior OCC executive, were formed to take ownership of the priorities: (1) to refine, update, and align the agency's supervisory approach; (2) to enhance the agency's value to the American public and federal banking system; (3) to operate more effectively; (4) to match the agency's workforce with the agency's needs; and (5) to be a thought leader within the regulatory community.

The OCC's approach to bank supervision emphasizes the importance of strong internal controls and risk management. Those things are no less important to the OCC itself. In 2015, the agency created an Office of Enterprise Risk Management and an Enterprise Risk Committee, and appointed the OCC's first Chief Risk Officer, with responsibility for identifying and managing the risks the agency faces.[3]

Risk-Based Supervision

The OCC uses a multi-step process for identifying, evaluating, and disseminating information about existing and emerging risks. With their access to the inner workings of the institutions that the agency supervises, our examiners use the OCC's Risk Assessment System (RAS) to assess eight types of risk in terms of their quantity, quality of risk management, aggregate level, and direction (that is, whether the

---

[2] OCC, "Roy Madsen Named Deputy Comptroller for Strategic Management," news release 2015-53, April 6, 2015.

[3] OCC, "Linda Cunningham Named the OCC's First Chief Risk Officer," news release 2015-109, August 5, 2015.

Comptroller Curry shares a moment with John Taylor, longtime President and CEO of the National Community Reinvestment Coalition, during that organization's February 2015 conference. Photo by Ron White

risk is increasing, stable, or decreasing). The system makes it possible for examiners, bank managers, and the board of directors to identify changes in the bank's risk profile at an early stage, which in turn provides additional time, if necessary, to develop and implement strategies for mitigating that risk.[4]

The OCC's Supervision Risk Management Division integrates quantitative and qualitative information about individual banks and supplies that information to the OCC's NRC, which looks at system-wide risks. NRC members include senior agency officials who supervise banks of all sizes, as well as officials from the OCC's law, policy, compliance, accounting, and economics departments. The NRC compiles and analyzes input from field staff and other sources and makes policy recommendations to the Comptroller. In this process, best practices are identified and disseminated and supervisory effectiveness is evaluated. This analysis contributes to the formulation of agency priorities.

NRC analysis also informs the OCC's supervisory communications to bankers and examiners that call attention to emerging risks and changes in supervisory policies and procedures. In 2015, the OCC issued supervisory bulletins on such diverse issues as risk management of financial derivatives,[5] risk management of money services businesses,[6] and matters requiring attention.[7]

The OCC also issues regular reports for use by banks and those who monitor the industry's condition. Among these reports are the *Semiannual Risk Perspective*, which is published each year in the spring and fall;[8] the annual *Survey of Credit Underwriting Practices*, a compilation of examiner observations and assessments;[9] the annual interagency *Shared National Credits Program Review*, which assesses large loan commitments owned by U.S. banking organizations, foreign banking organizations, and nonbanks;[10] the quarterly *OCC Mortgage Metrics Report*, which presents mortgage performance data from eight large national banks that service 43 percent of all first-lien mortgages in the United States;[11] and the *Quarterly Report on Bank Trading and Derivatives Activities*, which presents data on trading revenue, credit exposure from derivatives, and trading risk.[12]

These reports paint a picture of a generally healthy industry facing a variety of internal and external challenges. Those challenges include

4 OCC, *Comptroller's Handbook*, "Bank Supervision Process," October 2014.

5 OCC, "Risk Management of Financial Derivatives," bulletin 2015-35, August 4, 2015.

6 OCC, "Banking Money Services Businesses: Statement on Risk Management," bulletin 2014-58, November 19, 2014.

7 OCC, "Matters Requiring Attention: Updated Guidance," bulletin 2014-52, October 30, 2014.

8 OCC, *Semiannual Risk Perspective*, fall 2014 and spring 2015.

9 OCC, *2014 Survey of Credit Underwriting Practices*, December 2014.

10 OCC et al, *Shared National Credits Program: 2014 Review*, November 2014.

11 OCC, *OCC Mortgage Metrics Report*.

12 OCC, *Quarterly Report on Bank Trading and Derivatives Activities*.

- evolving cyber threats and information technology (IT) vulnerabilities.
- strategic planning, as banks reevaluate their business models, deployment of capital, and risk appetites.
- compliance risks, especially those regarding compliance with mortgage lending and servicing requirements and BSA/AML laws and regulations.
- intensifying competition for limited lending opportunities and the resulting loosening of underwriting standards and risk-layering.
- the prolonged low-interest-rate environment, which may create short-term incentives for banks to extend maturities on loan products for the higher yields they produce.
- specific loan products, such as auto and home equity lending, that present elevated risk due to the extent of banks' exposure, the inherent risk attributes of those products, or both.

Addressing Cyber Risk

In 2015, the risks to banks from cyber threats and vulnerabilities continued to increase. Attackers demonstrated growing proficiency in compromising credentials and systems through social engineering and by invading legitimate Web sites with malware that erased, corrupted, or encrypted data on a large scale. Hackers also were quicker to identify and exploit infrastructure vulnerabilities.

Addressing the risks that cyber threats pose to individual banks and to the banking system was a top priority for the OCC and the FFIEC, which brings all of the bank, savings association, and credit union regulatory agencies together to coordinate supervisory policy. As chairman of the FFIEC from 2013 to 2015, Comptroller Curry called for and was instrumental in the creation of a Cybersecurity and Critical Infrastructure Working Group. The FFIEC established this group to enhance communications among FFIEC member agencies and build on existing efforts to strengthen the activities of other interagency and private sector groups related to improving financial institutions' cybersecurity preparedness.

One of the working group's most important initiatives was an assessment of cybersecurity risk at more than 500 community financial institutions. That assessment produced recommendations to the banking industry designed to increase awareness of threats and best practices and to encourage financial institutions to participate in information-sharing organizations.[13]

Addressing Credit Risk

The improving economy stimulated loan growth in the federal banking system in 2015. For example, despite sharp declines in oil and gas prices, even banks located in the energy-producing areas within the OCC's Southern District showed loan growth, suggesting optimism among borrowers and lenders about the broader economy's strength and prospects. While economic conditions and lending patterns vary widely across the United States, 2015 saw double-digit increases in loans for multifamily home construction, to governments and municipalities, to farmers for land and equipment, and to health care providers. The biggest gains occurred in lending to nonbank financial providers, including mortgage and insurance companies, and real estate investment trusts.

Bank lending in 2015 was supported by the supply of capital as well as demand for it. With their abundant liquidity, banks experienced internal and competitive pressures to offset low price margins by expanding loan volume. These pressures led to the continuation of a recent trend toward easing standards of loan underwriting. The *Survey of Credit Underwriting Practices* that

[13] Remarks by Beth Dugan, Deputy Comptroller for Operational Risk, Clearing House Association, February 11, 2015.

OCC CONFRONTS DUAL THREAT FROM CYBER CRIMINALS

News headlines in 2015 provided a reminder that two of the highest-profile targets for computer hackers are financial institutions and government agencies. That makes cybersecurity doubly important to the OCC, which must defend its own systems against attack while helping banks confront the cyber threats they face. As Comptroller Curry said in a June speech, "Those threats are real and they are unlikely to abate anytime soon. In fact, they are more likely to increase."

In its ongoing efforts to support cyber risk management at supervised institutions, the OCC in 2015 collaborated with fellow members of the FFIEC to create the new cybersecurity assessment tool to assist banks in determining their inherent risk profile and level of cybersecurity preparedness. The OCC will also use the assessment to assist examiners in evaluating a bank's inherent risk and cybersecurity preparedness. The assessment incorporates concepts contained in the *FFIEC Information Technology Examination Handbook* and the National Institute of Standards and Technology's Cybersecurity Framework, a broadly applicable framework used by many nonfinancial sectors.

The assessment tool uses a multipart formula to help a bank determine its inherent risk profile and its level of cybersecurity preparedness. The inherent risk profile identifies the amount of risk posed to a bank by the types, volume, and complexity of the bank's technologies and connections, delivery channels, products and services, organizational characteristics, and external threats. The tool evaluates a bank's cybersecurity preparedness in five domains: cyber risk management and oversight, threat intelligence and collaboration, cybersecurity controls, external dependency management, and cyber incident management and resilience.

The tool also helps examiners understand an individual bank's level of inherent risk and cybersecurity preparedness. In addition, the assessment tool provides a common framework for assessment across institutions. Over time, it will help give regulators and bankers a better big-picture view of the industry's ability to withstand cyber attacks.

To introduce the assessment tool, the OCC held a webinar for midsize and community banks and one for large banks. While banks are not required to use the assessment tool, OCC examiners will use it in their examinations to gain a more complete understanding of an institution's inherent risk, risk management practices, and controls related to cybersecurity. OCC examiners are scheduled to begin incorporating the assessment tool into examinations in late 2015.

Meanwhile, the OCC continued to implement rigorous security controls to protect its own critical information resources, which include sensitive information used in supervising banks.

In addition to initiatives mentioned in the "Letter From the Chief Financial Officer" that appears later in this report, the OCC

- centralized key security functions within the Cyber Security Office.
- implemented a governance model that elevated the Chief Information Security Officer's role to one that reports to the Senior Deputy Comptroller for Management and the Chief Financial Officer.
- established a new security engineering team to implement innovative security technology solutions to mitigate emerging threats.

The OCC continually seeks ways to enhance its controls, monitoring, and training to best position the agency to ensure a safe and sound federal banking system, while safeguarding the information and resources entrusted to the agency.

was issued in December 2014 pointed to the lengthening of amortization schedules, the growth in interest-only loans, and loosening requirements for guarantees. In some banks, loan concentrations, especially in multifamily construction, were approaching safety and soundness limits. These trends, said Chief National Bank Examiner Jennifer C. Kelly, were "very similar to those seen from 2004 to 2006," when banks significantly loosened underwriting requirements or allowed frequent exceptions to them.[14] The easing of credit underwriting standards portends a rise in future credit risk—a trend the OCC was carefully monitoring at year's end.

Leveraged Lending

In March 2013, the OCC and other financial regulators issued guidance to address the growth in leveraged loans. These loans, which often are used to finance purchases of other companies, offer lenders more attractive returns than other loan products, but they also entail a higher degree of credit risk.[15] The guidance required banks making such loans to review and, if necessary, upgrade their risk management capabilities, underwriting standards, validation and risk-rating standards, pipeline management, reporting and analytics, loan participation policies, and stress testing capabilities.

Despite this guidance, the 2014 review of shared national credits found little improvement in the quality of large leveraged loans. Instead, the review found that more than 10 percent of the reviewed assets contained material weaknesses.

In response, the regulatory agencies issued supervisory letters to the banks in question, stepped up monthly monitoring of the banks' loan commitments, and closely tracked their progress in implementing the guidance. Although subsequent reviews continued to find risk management weaknesses, lower levels of leverage and improved repayment capacity in the leveraged loans that banks originated indicate that regulatory guidance and follow-up helped mitigate the excessive buildup of risk in this market.[16]

Addressing Strategic Risk

New regulations and changes in the financial marketplace have reshaped the banking environment since the financial crisis. Regulatory changes that went into effect since the enactment of Dodd–Frank enhanced stability of the financial system by requiring banks to exit certain higher-return, higher-risk activities and maintain higher levels of regulatory capital and liquidity. At the same time, banks face stiffer competition, particularly from nonbanks and Web- and other technology-based providers of financial services.

Under the OCC's heightened standards for corporate governance and risk management, which were codified in September 2014, supervisory oversight of banks with $50 billion or more in total assets has become more comprehensive and rigorous.[17] The heightened standards also underscored the need for banks to periodically reevaluate their strategy for staying viable and relevant to their customers in the more demanding competitive and regulatory environment. The spring 2015 *Semiannual Risk Perspective* found rising strategic risk among OCC-supervised institutions, noting the hurdles they faced in defining and implementing their strategic objectives.

Strategic risk manifested itself in various ways in 2015. Some banks assumed added risk by expanding into new, less familiar, or higher-risk products without appropriate due diligence, risk management, and

14 OCC, "Underwriting Standards Continue to Ease, OCC Survey Shows," news release 2014-168, December 16, 2014.

15 OCC, *Annual Report Fiscal Year 2014*, p. 10, and OCC, "Guidance on Leveraged Lending," bulletin 2013-9, March 22, 2013.

16 OCC, *Semiannual Risk Perspective*, spring 2015, pp. 27–28.

17 Remarks by Thomas J. Curry, Comptroller of the Currency, Clearing House Association, November 21, 2014. For more on this subject, see OCC, *Annual Report Fiscal Year 2014*, pp. 21–23.

MILLENNIALS AND BANKING

For more than 150 years, banks have tailored products and services in innovative ways to meet the needs of different customers. As needs and preferences have changed, so have banks. Today, banking is evolving to satisfy a new group of customers—millennials.

Millennials are the generation of consumers born between 1982 and 2000. There are more than 83 million of them, outnumbering baby boomers. Millennials want banking services, but they want those services instantly and on the go. They are comfortable sharing information broadly and conducting complex transactions through a smartphone app. Many millennials see cash as an unnecessary encumbrance. Rather than count out change, they want to pay for their purchases by smartphone, send money by text, and manage their finances anywhere, anytime.

Strategic planning is crucial for banks to address the needs of the next generation of consumers. To support these efforts, the OCC hosted and participated in discussions to help bankers better understand what millennials want and how to refine their products and services to match. Additionally the agency has worked to raise employee awareness of the preferences and needs of millennials in the workplace by sponsoring an employee networking group and including the subject in internal training activities.

The challenges facing banks were reflected in a recent industry survey of millennial attitudes toward banking. More than half of the millennials who responded to the survey saw no difference between their current bank and all other banks, and a third of them believed they would not need a bank at all in five years. Nearly three-quarters of the respondents said they would be more receptive to new financial services if offered by Apple, Google, PayPal, or Square rather than by their bank.

At the same time, millennials' comfort with technology provides an opportunity for banks to gain efficiencies and expand their services in new ways, relying more heavily on mobile apps and automated services. For example, a growing preference for depositing checks through remote capture offers banks significant potential savings on check-handling costs.

controls. To reduce operating costs, some banks cut control functions, for example, by outsourcing those functions to third parties without establishing appropriate risk management processes. Midsize and community banks, in particular, faced challenges in succession management, employee retention, and their dependence on third parties to perform certain operational and business functions.

These risk trends underscore the importance of strategic planning—the process by which, as Comptroller Curry put it, banks "identify who [they] are, what [their] strengths and weaknesses are, what [they] can realistically accomplish, and what success should look like."[18] OCC-developed tools and advice assist in this process. On the OCC's BankNet Web site, banks can compare their performance with a peer group they select, helping them identify potential competitive advantages and highlight opportunities for improvement. An OCC booklet, "A Common Sense Approach to Community Banking," focused on strategic planning,

[18] Remarks by Thomas J. Curry, National Bankers Association, October 1, 2014.

capital planning, and risk assessment and management for smaller institutions. [19]

The OCC emphasizes the importance of banks being open to new ideas, new products, and new operational approaches to succeed in the current environment. Many opportunities for innovation lie in the adoption of technology-based solutions to address evolving customer demands, counter nonbank competition, reduce operating costs, and improve customer access to credit and payment services. For many decades, banks have been pioneers in embracing and adapting technology. Banks are responsible for such fixtures of the modern economy as credit cards, personal identification numbers, online payments, and ATMs. Today, banks are partnering with technology companies and establishing innovation "laboratories" to continue developing and introducing new ideas to the marketplace. In 2015, banks were particularly active in expanding access to online, digital, and mobile payment methods.

The experience, however, with products that turned out poorly during the financial crisis, such as non-amortizing adjustable rate mortgages and mortgage-backed securities, are examples of how innovation can be risky as well as rewarding. Innovation must be carried out responsibly, in ways that are consistent with safety and soundness, compliant with applicable laws and regulations, and protective of consumers' rights.

To support responsible innovation, the OCC created a dedicated Payments Risk policy group, whose mission is to provide examination support, training, and guidance to examiners and to act as a resource to OCC-supervised institutions on both innovative and traditional payment structures.[20]

The OCC also endeavored to address the perception that it is too difficult to get new ideas through the regulatory approval process or that regulators are not receptive to these innovations. Comptroller Curry formed a team with members from across the agency, including policy experts, examiners, lawyers, and others to develop a framework for evaluating new and innovative products and services. While still early in the process, the goal is for the team to develop guiding principles and a framework to ensure the OCC has the capacity to continually identify and understand new trends and new technology, as well as the emerging needs of consumers of financial services. This capacity will enable the OCC to quickly evaluate those products that require regulatory approval, identify any risks associated with them, and remove unnecessary regulatory hurdles to their adoption. This approach also improves the OCC's capacity to provide sound advice to banks about meeting the emerging needs of their customers.[21]

Addressing Compliance Risk

BSA/AML Compliance

Recent years have seen several high-profile cases of BSA/AML noncompliance involving deliberate dereliction or complicity that led to heavy criminal and civil penalties. These cases skewed the trend in BSA/AML enforcement cases, as illustrated in the table below.[22]

Trends in OCC BSA-Related Enforcement Actions

Fiscal year	Formal enforcement actions	Dollar amount (in millions)
2010	14	$5.2
2011	10	$15.0
2012	15	$0.0
2013	16	$551.6
2014	16	$351.0
2015	6	$0.5
Total	**77**	**$923.3**

19 OCC, "OCC Publishes 'A Common Sense Approach to Community Banking,'" news release 2013-97, June 13, 2013.

20 Remarks by Thomas J. Curry, BITS Emerging Payments Forum, June 3, 2015.

21 Remarks by Thomas J. Curry, Federal Home Loan Bank of Chicago, August 7, 2015.

22 OCC, *Semiannual Risk Perspective*, spring 2015, p. 35.

The money-laundering threat is constantly evolving, especially as foreign-based individuals become more adept at using technology to circumvent bank controls. In this respect, threats to cybersecurity and BSA/AML compliance increasingly resemble one another.

For banks, meeting these threats requires an organization-wide commitment to risk management. "It is extremely important," Comptroller Curry observed, "that banks of all types and sizes understand the nature of BSA/AML risk, understand their BSA/AML regulatory obligations, and understand the importance of collaboration among financial institutions and sovereign supervisors to meet the rise in BSA/AML risk."[23]

In 2015, the OCC took a number of steps to assist supervised banks in complying with BSA/AML regulations. The agency's guidance on third-party relationships focused on the BSA/AML risks that arise when those relationships are not properly managed. OCC examiners emphasized that banks must have adequate resources to comply with BSA/AML requirements and that accountability for compliance exists across all bank business lines that entail BSA/AML risk. The agency also collaborated with other FFIEC agencies on a revision of several sections of the *BSA/AML Examination Manual*, including "Suspicious Activity Reporting," "Currency Transaction Reporting," "Foreign Correspondent Account Recordkeeping, Reporting, and Due Diligence," and "Correspondent Accounts (Foreign)."[24]

Comptroller Curry also called attention to parts of the BSA that might warrant revision. In its current incarnation, the BSA relies on subjective decision-making. The OCC continued discussions with the other regulatory agencies on ways to improve compliance and enforcement, including removing or amending regulations and requirements that may no longer be necessary or effective. The OCC also investigated ways to use technology to provide more accurate and timely information to law enforcement and regulators while reducing cost and burden to supervised institutions.[25]

With BSA/AML risk rising, some institutions decided to sever business relationships with individuals and companies considered to be higher risk. Prominent among them were money-service businesses, which typically offer storefront financial services to people less likely to use traditional banking services. Among their functions is providing remittance services to parts of the world that may lack formal banking structures.

The OCC made clear, however, that it expects the banks it supervises to objectively assess the particular risks posed by individual customers. As a general matter, the agency does not direct banks to open, close, or maintain individual accounts, or recommend or encourage banks to engage in the wholesale termination of categories of customer accounts. Rather, the OCC "expects banks to assess the risks posed by individual customers on a case-by-case basis and to implement appropriate controls to manage their relationships."[26]

Protecting Our Defenders: Enforcing the Servicemembers Civil Relief Act

Since the Civil War, military service members have enjoyed considerable protection from repossession of property, bankruptcy, foreclosure, or other civil actions. The Servicemembers Civil Relief Act (SCRA) of 2003 further codified these protections, while the Military Lending Act (MLA) of 2006

23 Remarks by Thomas J. Curry, Institute of International Bankers, March 2, 2015.

24 OCC, "Revised FFIEC BSA/AML Examination Manual," bulletin 2014-60, December 2, 2014.

25 Remarks by Thomas J. Curry, Institute of International Bankers, March 2, 2015.

26 Testimony of Daniel P. Stipano, Deputy Chief Counsel, U.S. House of Representatives Financial Services Committee, July 15, 2014. See also "FinCEN Statement on Providing Banking Services to Money Services Business," November 10, 2014, at www.fincen.gov/news_room/nr/pdf/20141110.pdf.

provided an interest rate cap and other consumer protections to active-duty military members and their dependents. In July 2015, the U.S. Department of Defense amended the regulations implementing the MLA to expand protections to additional loan products, including additional types of payday loans, credit card accounts, and installment loans.[27]

Following a 2012 report by the Government Accountability Office (GAO),[28] the OCC moved to strengthen its supervision of SCRA compliance. Every OCC-supervised bank is now required to undergo a review of its SCRA compliance as part of its regular examination. The OCC also worked with the institutions it supervises to ensure that banks are prepared to comply with the amended MLA, the provisions of which go into effect beginning in 2016.

This focus helped drive improved SCRA compliance. In the first quarter of 2015, the OCC cited seven SCRA violations among large, midsize, and community banks, projecting to a significant reduction from the 65 violations cited in 2014. The OCC will continue to focus on ensuring that those who serve in America's military get the protections provided by law.[29]

Consumer Protection

Events in 2015 highlighted the risks banks run when they fail to ensure that their customers are not subject to unfair or deceptive practices in connection with products marketed and sold by the bank, or by the bank and its vendors. Banks must monitor the performance of their marketing partners and vendors to ensure that these third parties are in full compliance with applicable laws and regulations. The OCC took action to stop unfair billing practices and deceptive and unfair marketing practices arising from "add on" products, such as identity theft protection and debt cancellation coverage offered by banks directly or through their vendors.[30]

In August 2015, the OCC issued guidance covering another consumer product with compliance implications. Many banks offer tax refund-related credit products, including refund anticipation loans, in which the customer's anticipated tax refund repays or collateralizes the loan. These products present particular safety and soundness and compliance risks because of their unique payment and cost structures and the bank's reliance on third-party tax preparers who interact with customers. The guidance outlines the safety and soundness measures that banks must follow if they offer these products, emphasizing board and management responsibility, consumer protection standards in regard to marketing and disclosures, and costs and fees. Tax refund-related products also require that banks maintain high standards of third-party and BSA/AML risk management.[31]

These actions involving consumer protections demonstrated the OCC's continuing commitment to ensuring that banks treat their customers fairly—and highlighted the risks to bank safety when they do not.

Supporting Community Banking

Community banks provide many of the essential financial services and much of the credit necessary for our nation's economic growth. Throughout the country, these banks help small businesses thrive by offering personalized service and credit products tailored to their customers' needs. In addition, these banks and their employees

[27] For the SCRA, see the act's official U.S. Department of Defense Web site at https://www.dmdc.osd.mil/appj/scra.

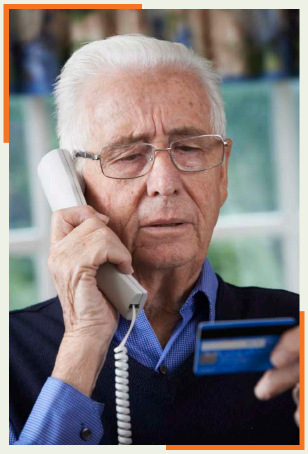
[28] GAO, "Mortgage Foreclosures: Regulatory Oversight of Compliance With Servicemembers Civil Relief Act Has Been Limited," July 17, 2012, www.gao.gov/products/GAO-12-700.

[29] Remarks by Grovetta Gardineer, Deputy Comptroller for Compliance Risk, Association of Military Banks of America, August 31, 2015.

[30] OCC, "OCC Assesses $35 Million Penalty Against Citibank, N.A. and an Affiliate; Orders Restitution to Customers for Unfair Billing Practices and Deceptive Marketing," news release 2015-103, July 21, 2015.

[31] OCC, "Tax Refund-Related Products: Risk Management Guidance," bulletin 2015-36, August 4, 2015.

BANKS PROVIDE A FRONTLINE DEFENSE AGAINST ELDER FRAUD



One of the fastest-growing segments of the U.S. population consists of those 65 and older. That group is especially vulnerable to those who seek to take advantage of seniors' trust, often substantial assets, and possibly diminished physical or cognitive capabilities.

The senior population constitutes a growing market for financial services. People in this age bracket need and want professional guidance on budgeting, money management, estate planning, and other financial issues, guidance that banks are ideally equipped to provide. One of the most important services that banks can provide to older Americans, however, is to serve as an early warning system against financial fraud. Older people are more likely than younger ones to conduct their banking transactions face-to-face rather than through an electronic network, giving tellers and other bank personnel the opportunity to spot suspicious patterns of activity, such as repeated large withdrawals or sudden requests to liquidate assets.

In fact, since 2011, banks have been required to file suspicious activity reports (SAR) to the Treasury Department's Financial Crimes Enforcement Network (FinCEN) when they suspect that older customers are being subjected to financial abuse. The number of SARs related to elder abuse has risen dramatically since 2011, in part because of regulatory changes.

Yet, as Comptroller Curry commented in a 2015 speech, banks can and are doing more. At some banks, employees who work directly with customers are being trained to recognize the warning signs of financial abuse. Marketing and financial education materials are provided to alert customers to the different forms that elder abuse can take. Innovative account arrangements are being introduced that enable older adults to allow caretakers to track their banking activity without the older adults having to relinquish control over their accounts. In addition, the OCC, in concert with other bank regulators, has weighed in with detailed guidance to help banks to both comply with the law and better serve their older and more vulnerable customers. The OCC also provides resources for seniors and all bank customers, including its Customer Assistance Group and a Web site, www.HelpWithMyBank.gov, to answer consumer questions and help resolve complaints.

strengthen our cities and towns by helping to meet the financial needs of municipalities and by their active participation in civic life.

By far, community banks constitute the majority of the institutions supervised by the OCC, and overseeing their safety and soundness is central to the agency's mission. The agency's supervision of community banks is centered in field offices, where a local Assistant Deputy Comptroller (ADC) has responsibility for a portfolio of community banks. The ADCs report to one of the four OCC districts, which in turn report to the Senior Deputy Comptroller for Midsize and Community Bank Supervision in Washington, D.C. Community bank examiners operate from more than 60 locations throughout the United States, close to the banks they supervise. This structure provides community banks with the benefits of highly trained bank examiners with local knowledge and experience, supplemented by the resources and specialized expertise that a nationwide presence can provide.

The OCC understands that a one-size-fits-all approach to supervision is not appropriate, especially for community banks, since they have different business models and more limited resources than larger banks. The OCC also recognizes that, while community banks possess competitive advantages in terms of their access to and understanding of

OCC ENCOURAGES COMMUNITY BANKS TO COLLABORATE

Recognizing the many challenges that community banks and thrifts face in today's marketplace, the OCC responded in 2015 by encouraging these institutions to look for ways to cut costs and shore up their bottom lines, in a safe and sound manner, through collaboration.

The OCC outlined its position in a paper published January 13, 2015, titled "An Opportunity for Community Banks: Working Together Collaboratively."

The OCC recognizes that many community banks need to control expenses in response to reduced profit margins, and collaboration is one means that smaller institutions have to meet particular business and, in some cases, regulatory challenges.

"Community banks play an important role across the country, supporting the financial needs of business, communities, and families," Comptroller Curry said in an accompanying statement. "But they face challenges in providing the competitive products and services their customers expect, while they compete with larger banks, credit unions, and nonbank firms that are expanding their banking activities. Collaboration can help unlock opportunities."

Among the areas the OCC sees as conducive to effective collaboration are

- jointly purchasing materials or services.
- sharing back-office or other services.
- sharing a specialized staff member or team.
- jointly owning a service organization.
- participating in disaster mitigation agreements.
- jointly providing or developing products and services.

Banks face obvious limits to collaboration when some are competitors in the same marketplace. Banks must take into account antitrust concerns, as well as differences in their respective policies and procedures. And, before sharing resources, banks should perform thorough due diligence. The OCC's paper outlines what constitutes proper oversight and the keys to prudent collaborative relationships.

their customers, they also face competitive handicaps, including those common to most smaller businesses: recruiting and retaining the right people, higher per-unit costs, securing access to capital, and complying with government regulations. Therefore, where the law provides the flexibility to do so, the OCC seeks to tailor its supervision to a bank's size and complexity, factors these differences into its rules and guidance, provides alternate ways to satisfy regulatory requirements, uses regulatory exemptions and transition periods, and provides tools that can help community banks meet their operational and competitive challenges.[32]

One way the OCC seeks to minimize the burden on community banks is to

[32] Testimony of Toney Bland, Senior Deputy Comptroller for Midsize and Community Bank Supervision, U.S. Senate Committee on Banking, Housing, and Urban Affairs, February 10, 2015.

explain and organize rulemakings so these institutions can better understand the rules' scope and applicability. Every release of a new OCC regulation or supervisory guidance highlights its relevance to those institutions, enabling them to assess quickly whether and to what extent the issuance applies to them.

In addition to the cybersecurity tool mentioned earlier in this report, which was developed with the special needs of community banks in mind, the OCC offers other tools, such as a portfolio-level stress test tool for commercial real estate loans and a tool that allows bankers to develop customized reports they can use to compare their bank's balance sheet and financial performance ratios to those of peer banks. These tools provide analytical insights once accessible only to larger institutions.

Economic Growth and Regulatory Paperwork Reduction Act

Section 2222 of the Economic Growth and Regulatory Paperwork Reduction Act (EGRPRA) of 1996 requires the OCC, the Federal Deposit Insurance Corporation (FDIC), and the Board of Governors of the Federal Reserve System, along with the FFIEC, to review their regulations at least every 10 years to identify outdated or otherwise unnecessary regulatory requirements imposed on insured depository institutions. In conducting this review, the law requires the agencies to categorize their regulations by type and, at regular intervals, to provide notice and solicit public comment on categories of regulations, requesting commenters to identify areas of regulations that are outdated, unnecessary, or unduly burdensome.[33] The agencies have divided their regulations into 12 categories and published the first three categories for comment in the *Federal Register* on June 4, 2014.[34] On February 13, 2015, the agencies published a second *Federal Register* notice requesting comment on three additional categories; on June 5, 2015, the agencies published a third *Federal Register* notice asking for public comment on the next three categories; and in December 2015, the agencies are planning to publish a *Federal Register* notice requesting comment on the last three categories of rules.[35]

In addition, as part of the EGRPRA review process, the agencies held six outreach meetings around the country. The meetings provide interested parties with an opportunity to comment on regulatory burden reduction directly to the agencies' principals and staff members. Meetings took place in Los Angeles, California, on December 2, 2014; in Dallas, Texas, on February 4, 2015; in Boston, Massachusetts, on May 4, 2015; in Kansas City, Missouri, with a special focus on rural banking issues, on August 4, 2015; in Chicago, Illinois, on October 19, 2015; and in Arlington, Virginia, on December 2, 2015.

Comptroller Curry's attendance at the EGRPRA outreach meetings demonstrated the OCC's commitment to the process. He emphasized that this commitment was not limited to strict adherence to the time frames mandated by EGRPRA. "If it is clear that a regulation is unduly burdensome, and if we have the authority to make changes to eliminate that burden," the Comptroller said, "we will act." When such changes require legislative action, he promised to "work with Congress to remove unnecessary burdens."[36]

The OCC advanced three such legislative proposals in 2015. The first would modify a law that requires savings associations to devote a fixed portion of their balance sheets to certain types of assets. Under the OCC's proposal, FSAs would have the authority to diversify their portfolios without having to change their charters or their supervisors.

33 The agencies have established a Web site (http://egrpra.ffiec.gov) to provide up-to-date information on the EGRPRA process.

34 79 Fed. Reg. 32172, June 4, 2014.

35 80 Fed. Reg. 7980, February 13, 2015; 80 Fed. Reg. 32046, June 5, 2015.

36 Statement of Thomas J. Curry, Interagency Outreach Meeting, October 19, 2015.

A second legislative initiative relates to the frequency of examinations for community banks. Under existing law, banks with total assets above $500 million must be examined at least once during each 12-month period, but the period is 18 months for banks with fewer assets, a "well-capitalized" designation, and high supervisory ratings in their previous examination. The OCC asked Congress to raise the asset threshold from $500 million to $750 million, so that additional well-managed banks would qualify for the extended cycle.[37]

Finally, the OCC asked Congress to provide a community bank exemption to the Volcker rule, the provision of Dodd–Frank that prohibits banks from making certain speculative investments for their own accounts. The OCC recommended exempting banks with $10 billion or less in assets (assuming that an institution is not controlled by a company with more than $10 billion in assets), which typically do not engage in the complex trading and other activities covered under the Volcker rule. As Senior Deputy Comptroller for Midsize and Community Bank Supervision Toney Bland told Congress, the OCC does "not believe [community banks] should have to commit resources to determine if any compliance obligations under the rule would apply," given "the nominal risk that [community] institutions could pose to the financial system."[38]

Responsible Innovation Helps Revitalize American Communities

One of the country's great challenges is the number of economically distressed communities. Whether the underlying cause of decline is economic decay, natural disaster, or civic disruption, a community's recovery depends on community partnerships with local and federal government officials, community-based organizations, and the private sector—including financial institutions—coming together to develop creative solutions.

Fortunately, a variety of incentives and tools encourage banks to tackle the challenges that arise from economic distress. The Community Reinvestment Act (CRA) allows consideration of community development activities that revitalize or stabilize low- or moderate-income areas, designated disaster areas, and certain distressed or underserved rural areas. For example, banks may qualify for CRA consideration if they make loans to help retain businesses that employ local residents, make investments to attract a new employer that will create long-term job opportunities, or provide technical assistance to help nonprofit organizations build capacity. Under the OCC's public welfare investment authority, banks may make equity investments in community development and public welfare projects, including affordable housing, that primarily benefit low- and moderate-income individuals and areas. Other vital tools, including the new markets tax credit and the historic tax credit, also help stabilize and revitalize low-income communities.[39]

The financial crisis dealt a severe blow to many communities, especially those already struggling to adapt to the nationwide shift from a manufacturing to a service economy. When the housing market collapsed, many of these communities were hard hit by foreclosures, seizures for nonpayment of taxes, and property abandonment.

What to do with the tens of thousands of homes that wound up in the hands of banks and public authorities has been a vexing social and economic problem. While demolition may be the only option for homes in advanced states of decay, a great many

37 Remarks by Thomas J. Curry, Depositors Insurance Fund, April 2, 2015.

38 Statement of Toney Bland, U.S. Senate Committee on Banking, Housing, and Urban Affairs, February 10, 2015. On the Volcker rule, see OCC, *Annual Report Fiscal Year 2014*, pp. 17–18.

39 Remarks by Thomas J. Curry, Comeback Communities Conference, June 18, 2015. See also remarks by Barry Wides, Deputy Comptroller for Community Affairs, Association for Neighborhood and Housing Development, March 19, 2015.

INNOVATION IN COMMUNITY DEVELOPMENT FINANCING

One of the ways banks make a difference in their communities is through the use of public welfare investments, a legal authority that enables banks to make direct or indirect equity investments that primarily benefit low- and moderate-income individuals or areas or other government-targeted redevelopment areas. In its administration of the public welfare investment authority, the OCC has worked to make the program easier for banks to use in recent years. In 2015, the agency's Community Affairs team highlighted the program in several publications to encourage even more banks to get involved.

The OCC is increasingly seeing banks use the public welfare investment authority to make creative investments in affordable housing and community development. For example, the U.S. Department of Housing and Urban Development initiated a Rental Assistance Demonstration (RAD) program that allows public housing agencies to leverage debt and equity to meet the critical need for capital improvements. The OCC has approved a number of public welfare investments by banks that provided equity for low-income housing tax credit transactions that funded the transformation of public housing stock under the RAD program. These innovative public welfare investments will preserve vital affordable housing assets and ensure that these public housing units will remain permanently affordable to low-income households. In many instances, the public welfare investment authority goes hand in hand with the CRA, which promotes innovative financing that is responsive to community needs.

Banks' use of the public welfare investment authority has increased by more than 10 percent annually for the last several years. The OCC has fostered this growth by streamlining administrative approval processes and promoting awareness of innovative investments through Community Affairs outreach efforts. The publications released in 2015 showed how banks could use the public welfare investment authority to provide financing for small business investment companies, small multifamily rental housing, and historic tax credit transactions.

To further build awareness, the OCC's District Community Affairs Officers met with banks and community-focused organizations to explain the public welfare investment authority's benefits. The OCC also emphasized that, while the public welfare investment authority allows banks to make capital available for community development by investing in real estate, banks must do so in a safe and sound manner.

abandoned homes are structurally sound and can be made habitable with repairs.

The cost of repairs, however, can easily exceed the value of the home itself. That fact poses a problem for OCC-supervised institutions that have expressed an interest in helping in the revitalization of these communities but are concerned about supervisory criticism if they make loans to borrowers for the purchase price of the home plus the repair costs. Existing supervisory standards for residential mortgages generally call for a loan-to-value limit of 90 percent of the property's value, unless there are appropriate credit enhancements. In a September speech before the City Club of Cleveland, Comptroller Curry said that the supervisory standard does "not create an ironclad ban on lending above that limit," and that such loans can be consistent with safety and soundness standards, provided that the bank conforms to its own policies and procedures and all legal requirements.[40]

Regulatory Accomplishments

The OCC completed several important Dodd–Frank rulemakings in the 2015 fiscal year.

[40] Remarks by Thomas J. Curry, City Club of Cleveland, September 9, 2015.

Diversity

Section 342 of Dodd–Frank required each of the federal financial regulatory agencies to establish an Office of Minority and Women Inclusion (OMWI) to be responsible for all matters relating to the agency's diversity in management, employment, and business activities. Dodd–Frank also instructed each agency's OMWI director to develop standards for assessing the diversity policies and practices of the agencies' regulated entities.

trade groups. The agencies sought their views on appropriate standards and information about the successes and challenges of existing diversity policies and programs. The agencies also consulted with financial professionals, consumer advocates, and community representatives to gain a greater understanding of the issues confronting minorities and women in obtaining employment and business opportunities within the financial services industry.[41]

OCC OMWI Director Joyce Cofield (center) took part in a vendor outreach event with an interagency group of OMWI directors in August 2015. Photo by Ron White

Covered agencies released the final joint standards for assessing regulated entities in June 2015. They provide a framework for regulated entities to create and strengthen their diversity policies and practices, including their organizational commitment to diversity, workforce and employment practices, procurement and business practices, and practices to promote transparency of organizational diversity and inclusion within those entities' U.S. operations.

To produce these final standards, the agencies held extensive discussions with depository institutions, holding companies, and industry

Risk Retention

In 2011, the OCC participated in the issuance of an interagency proposal to establish asset-backed securities requirements designed to motivate sponsors of securitization transactions to exercise due diligence regarding the quality of the loans they securitize. In other words, the goal was to ensure that sponsors retain some risk, subjecting them to a share of the losses if the securitized loans default. Because of the large

41 OCC et al, "Agencies Issue Final Standards for Assessing Diversity Policies and Practices of Regulated Entities," news release 2015-80, June 9, 2015. See also OCC, *Annual Report Fiscal Year 2014*, pp. 23–24.

number of comments the agencies received in response to the 2011 proposal that resulted in numerous changes to the proposal, the agencies sought a second round of public review and comment by issuing a re-proposal in 2013.

The final risk retention rule, which the agencies issued in October 2014, generally requires sponsors of asset-backed securities to retain not less than 5 percent of the credit risk of the assets collateralizing the issuance. The rule also sets forth prohibitions on transferring or hedging the credit risk that the sponsor is required to retain. It takes effect in December 2015 for securitizations of residential mortgage loans and in December 2016 for securitizations of all other collateral.

One important issue that arose during the rule writing was what underwriting requirements and standards to incorporate into the definition of a qualified residential mortgage (QRM). Under section 941 of Dodd–Frank, loans meeting the QRM definition established by the agencies are not subject to risk retention when securitized. In the final rule, the agencies defined a QRM to include any loan that meets the standards for a qualified mortgage under the Consumer Financial Protection Bureau's (CFPB) "ability to repay" mortgage rules.[42]

Appraisal Management Companies

Real estate appraisers traditionally have been regulated and supervised at the state level, with state regulators operating under federal oversight. Rules adopted by the states must, among other things, set standards for appraiser licensing and certification, and provide the state with the authority to sanction appraisers who violate codes of professional conduct or the Uniform Standards of Professional Appraisal Practices. State oversight of appraisers that falls short may result in appraisers from that state being prohibited from involvement in any federally related transactions, which are loan transactions involving a federally regulated financial institution that require the services of an appraiser.

Section 1473 of Dodd–Frank required federal oversight of state regulation to be extended to appraisal management companies (AMC), which operate as intermediaries between lenders and individual appraisers for secondary mortgages. This requirement was partly in response to allegations that these companies pressured appraisers to deliver above-market valuations in support of loans that their lender-clients wished to make. Under the final rule adopted in April 2015, the states have to adopt a regulatory structure for AMCs within 36 months of the effective date of the final rule if they do not have one already. The final rule does not require a state to regulate AMCs. In states that opt out of AMC regulation, however, AMCs in that state will be barred from providing appraisal management services in connection with federally related transactions after the expiration of the 36-month period.

[42] OCC et al, "Six Federal Agencies Jointly Approve Final Risk Retention Rule," news release 2014-140, October 22, 2014.

Section Two

Condition of the Federal Banking System

Summary

Banks were generally profitable in 2015. System-wide return on equity (ROE) stood at 10 percent in the second quarter of 2015, slightly above the level of a year earlier. Both net interest income and noninterest income rose during the first half of calendar year 2015, and noninterest expenses fell. Although provisions increased, net income increased by $3 billion over the same period in 2014. At community banks with less than $1 billion in assets, ROE rose strongly over the same period, on the strength of higher interest income and higher noninterest income. At midsize banks, ROE declined slightly in the second quarter of 2015 from the same period a year ago. Credit quality continued to improve throughout the federal banking system, with charge-off rates for all major loan categories now at or below their 25-year averages.

Discussion

System profitability as measured by ROE stood at 10.0 percent for the second quarter, slightly above the 9.9 percent posted a year earlier, but still well below pre-crisis levels. Also in the second quarter, profitability rose at large banks and community banks but slipped at midsize banks. Banks still face pressure on net interest margins because of the unprecedented duration of the low-interest-rate environment. Several of the factors supporting earnings growth since the end of the recession in 2009, such as 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 $4.5 billion (5.0 percent) in the first half of 2015 compared with a year earlier. Noninterest income, largely in the form of fees on bank products and services, rose by $1.2 billion, noninterest expense fell by $1.5 billion, and net interest income rose by $1.8 billion, reflecting growth in loans. A $1.9 billion increase in provisions offset some of the positive trends.

Loan-loss provisions, which have declined since 2009, continue to run below the level of net charge-offs, draining the allowance for loan and lease losses. As a share of total loans, provisions have risen only slightly from their three-decade low.

The improving economy stimulated loan growth in the federal banking system in 2015

System-wide net interest income grew 1.3 percent in the first half of 2015 compared with a year earlier, as solid growth in loan volume offset the continued slide in loan yields. As long as interest rates remain low, pressure is likely to continue on net interest income, the main source of revenue for most banks.

Community banks have narrowed the gap in ROE with larger banks. In the first half of 2015, net interest income for community banks rose 3.4 percent from the previous year, on a 7.0 percent increase in loans on the books. As a group, however, smaller banks have not been as successful as their larger peers in reducing noninterest expenses, some of which are attributable to higher compliance and regulatory costs. Further, the steady decline in provision expenses, which boosted net income for several years, now appears to have reversed.

Loan performance. Loan performance has improved steadily over the last five years. For all major loan categories, charge-off rates declined again in the first half of 2015 compared with a year earlier and remained below their 25-year averages.

To strengthen their positions, many banks raised additional capital over the last several years. The result is a stronger federal banking system than existed before the crisis.

Through the OCC's membership in the Financial Literacy and Education Commission, Comptroller Curry helps shape a national strategy on financial education. Photo by Ron White.

Section Three

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 nearly 1,600 national banks and FSAs, including about 50 federal branches and agencies of foreign banks in the United States. These institutions comprise nearly two-thirds of the assets of the commercial banking system.

The Comptroller also is a Director of the FDIC and NeighborWorks America, and is a member of the Financial Stability Oversight Council and the FFIEC.

Before becoming Comptroller of the Currency, Mr. Curry served as a Director of the FDIC from 2004 to 2012 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.

Chief of Staff's Office

Paul M. Nash, Senior Deputy Comptroller and Chief of Staff

Paul M. Nash, Senior Deputy Comptroller and Chief of Staff, oversees the external affairs and communications functions of the OCC, including Congressional Liaison, Banking Relations, Press Relations, Internal Communications, Minority Affairs, Disclosure Services, and Publishing and Design Services. He also 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 Law Center.

Chief Counsel's Office

Amy Friend, Senior Deputy Comptroller and Chief Counsel

Amy Friend, Senior Deputy Comptroller and Chief Counsel, 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 FSAs. Ms. Friend also oversees the agency's licensing and community affairs functions. She assumed these duties in February 2013.

Before taking on her current role at the OCC, 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 previously worked at the OCC from 1998 to 2008 as Assistant Chief Counsel, after holding several key legal positions in the private sector and the legislative branch.

Ms. Friend is a graduate of the University of Pennsylvania, magna cum laude, Phi Beta Kappa, and Georgetown University Law Center, cum laude.

Chief National Bank Examiner's Office

Jennifer C. Kelly, Senior Deputy Comptroller for Bank Supervision Policy and Chief National Bank Examiner

As Senior Deputy Comptroller for Bank Supervision Policy and Chief National Bank Examiner, Jennifer C. Kelly directs the formulation of policies and procedures for bank supervision and examination. She also chairs the agency's Committee on Bank Supervision. She assumed this role in August 2014.

Ms. Kelly previously served as Senior Deputy Comptroller for Midsize and Community Bank Supervision, a position she held from 2008 to 2014. She 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.

Ms. Kelly earned a bachelor of arts degree in economics from Mount Holyoke College.

Large Bank Supervision

Martin Pfinsgraff, Senior Deputy Comptroller for Large Bank Supervision

Senior Deputy Comptroller Martin Pfinsgraff is responsible for supervision activities in the largest national banks and FSAs, as well as federal branches and agencies. He also oversees operations of the International Banking Supervision group and the OCC's London Office. He assumed his current OCC position in July 2013.

Mr. Pfinsgraff joined the OCC in 2011 as Deputy Comptroller for Credit and Market Risk. In this role, he managed and directed the agency's market risk activities, oversaw credit and market risk policy formulation, and served as co-chair of the OCC's NRC.

Mr. Pfinsgraff has more than 30 years of experience in finance and risk management in the banking, securities, and insurance industries. He holds a master's degree in finance from Harvard Business School and has earned the chartered financial analyst designation. He is a graduate of Allegheny College.

Midsize and Community Bank Supervision

Toney Bland, Senior Deputy Comptroller for Midsize and Community Bank Supervision

As Senior Deputy Comptroller for Midsize and Community Bank Supervision, Toney Bland is responsible for supervising nearly 1,500 national banks and FSAs, as well as 1,840 OCC employees. He assumed these duties in August 2014.

Mr. Bland previously served as Deputy Comptroller for the agency's Northeastern District, where he was responsible for overseeing more than 400 community banks and FSAs. Mr. Bland started his OCC career as an Assistant National Bank Examiner in Milwaukee, Wis., in 1981. He was commissioned as a National Bank Examiner in 1986.

Mr. Bland received his bachelor of science degree in business administration and economics from Carroll University.

Economics

David Nebhut, Senior Deputy Comptroller for Economics

As Senior Deputy Comptroller for Economics, David Nebhut oversees the agency's Economics Department. The department provides support to bank supervision, conducts analysis and research, and delivers regular reports to OCC executives and personnel. Mr. Nebhut took on this role in November 2013.

From 2011 to 2013, Mr. Nebhut served as Deputy Comptroller for Economic and Policy Analysis. He joined the OCC in 1980 as a financial economist. Before joining the OCC, he taught economics at Northwestern University.

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

Office of Management

Kathy K. Murphy, Senior Deputy Comptroller for Management and Chief Financial Officer

Kathy K. Murphy is the Senior Deputy Comptroller for Management and Chief Financial Officer. In this role, Ms. Murphy is responsible for the OCC's departments of financial management, human capital, continuing education, information technology, security, real estate services, performance improvement, and management services. She took on her current duties in 2014.

From 2009 to 2014, as Deputy Comptroller and Chief Accountant, Ms. Murphy was the OCC's authoritative source on bank accounting and financial reporting, providing counsel to examiners, the banking industry, and the accounting profession. She also represented the OCC on the FFIEC's Reports Task Force and the Accounting Expert Group of the Basel Committee on Bank Supervision.

Ms. Murphy joined the OCC in 2002 after serving in public accounting with two large national accounting firms. She graduated in 1997 from the University of Maryland with bachelor's degrees in accountancy and finance. She is also a certified public accountant and a member of the American Institute of Certified Public Accountants.

Enterprise Governance and Ombudsman

Larry L. Hattix, Senior Deputy Comptroller for 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 was the OCC Ombudsman from 2008 to 2013, having previously served as ADC for the Cincinnati, Ohio, field office. He joined the OCC in 1988 as an Assistant National Bank Examiner and obtained his commission as a National Bank Examiner in 1994, with a specialty in consumer and CRA compliance.

Mr. Hattix has a bachelor's degree in business administration and finance from Carroll University.

Office of Minority and Women Inclusion

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

As Executive Director for the Office of Minority and Women Inclusion, Joyce Cofield provides executive direction, sets policies, and oversees all agency matters relating to diversity in management, employment, and business activities. She reports directly to the Comptroller of the Currency. Ms. Cofield assumed her current duties in December 2010.

Since joining the OCC in 2001, Ms. Cofield has served in a variety of leadership roles in human capital, recruitment, and diversity management. Before joining the agency, she held several executive positions in private industry. 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 Four

Licensing and Enforcement Measures

Figure 1: Corporate Application Activity, FY 2014 and FY 2015

	FY 2014	FY 2015	FY 2015 decisions			
	Applications received		Approved	Conditionally approved	Denied	Total[a]
Branches	380	353	326	0	0	326
Capital/sub-debt	82	83	57	10	0	67
Change in bank control	14	12	1	1	0	11
Charters	2	0	0	0	0	0
Charter conversions[b]	8	6	4	3	0	7
Federal branches	1	0	0	0	0	0
Fiduciary powers	5	2	1	1	0	2
Mergers	102	75	61	5	0	66
Relocations	223	201	198	0	2	200
Reorganizations (national banks only)	44	62	42	5	0	47
Subsidiaries	46	18	12	7	0	20
Substantial change in assets	17	21	9	7	0	16
Operations	4	0	0	0	0	0
Mutual to stock conversions	4	5	3	2	0	5
Total	**932**	**838**	**714**	**41**	**2**	**767**

Source: OCC data.

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

[b] Conversions to OCC-regulated institution.

Figure 2: Licensing Actions and Timeliness, National Banks and FSAs, FY 2014 and FY 2015

		FY 2014			FY 2015		
			Within target			Within target	
	Target time frames in days[a]	Number of decisions	Number	Percent	Number of decisions	Number	Percent
Branches	45/60	391	388	99	326	321	98
Capital/sub-debt	15/45	76	74	97	67	65	97
Change in bank control	NA/120	9	9	100	11	11	100
Charters	45/60	2	2	100	0	0	—
Charter conversions	60/120	7	7	100	7	7	100
Federal branches	NA/120	1	1	100	0	0	—
Fiduciary powers	30/60	6	6	100	2	2	100
Mergers	45/60	106	105	99	66	66	100
Relocations	45/60	213	200	94	200	192	96
Reorganizations	45/60	50	49	98	47	42	89
Subsidiaries	30/60	33	33	100	20	20	100
Substantial change in assets	NA/60	18	18	100	16	15	94
Operations	30/60	3	3	100	0	0	—
Mutual to stock conversions	NA/60	4	4	100	5	4	75
Total		**919**	**899**	**98**	**767**	**745**	**97**

Source: OCC data.

Note: Most decisions (97 percent in 2014 and 95 percent in 2015) were decided in the district offices and Large Bank Licensing under delegated authority. Decisions include approvals, conditional approvals, and denials. NA means not applicable.

[a] Those filings that qualified for the "expedited review" process are subject to the shorter time frames listed. The longer time frames are the standard benchmarks for more complex applications. 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.

Figure 3: Change in Bank Control Act, FY 2011–FY 2015 (Notices Processed With Disposition)[a]

Year	Received	Acted on	Not disapproved	Disapproved	Withdrawn
2015	12	11	11	0	1
2014	14	9	9	0	0
2013	8	6	6	0	1
2012	10	6	6	0	0
2011	4	6	6	0	0

Source: OCC data.

[a] FY 2012 through 2015 data are for national banks and FSAs combined.

Figure 4: OCC Enforcement Actions, FY 2015

Type of enforcement action	Against institutions	Against institution-affiliated parties
Cease-and-desist orders	21	5
Restitution amount ordered	$ 40,000,700	$ 2,628,106
Temporary cease-and-desist orders	0	0
12 USC 1818 civil money penalties	16	29
12 USC 1818 civil money penalties amount assessed	$ 1,078,500,000	$ 1,005,000
Flood insurance civil money penalties	6	0
Flood insurance civil money penalties amount assessed	$ 1,312,147	$ 0
Formal agreements	17	0
Capital directives	2	NA
Prompt corrective action directives	0	NA
Individual minimum capital ratio letters	7	NA
Safety and soundness orders	5	NA
Memorandums of understanding	5	0
Commitment letters	2	NA
Suspension orders	NA	0
12 USC 1818 removal/prohibition orders	NA	12
12 USC 1829 prohibitions	NA	149
Letters of reprimand	26	0
Total actions	**107**	**195**

Source: OCC data.

Note: NA means not applicable.

Figure 5: Applications Presenting CRA Issues Decided, FY 2015

Bank, city, state	Approval date	Document number
Valley National Bank, Passaic, N.J.	October 3, 2014	CRA decision No. 163
Capital One, NA, Plano, Texas	October 27, 2014	CRA decision No. 164
Wells Fargo Bank, NA, Sioux Falls, S.D.	February 15, 2015	CRA decision No. 165
Bridgehampton National Bank, Bridgehampton, N.Y.	June 4, 2015	CRA decision No. 166
Sterling National Bank, Montebello, N.Y.	June 26, 2015	CRA decision No. 167
OneWest Bank, NA, Pasadena, Calif.	July 21, 2015	CRA decision No. 168
First Tennessee Bank, Memphis, Tenn.	September 16, 2015	CRA decision No. 169

Source: OCC data.

Section Five

Financial Management Discussion and Analysis

Kathy K. Murphy
Senior Deputy Comptroller for Management and Chief Financial Officer

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 2015. For FY 2015, our independent auditors again have rendered an unmodified opinion.

This unmodified opinion reflected the OCC's ability to maintain a strong internal control environment, which is the foundation for accurate financial reporting and the safeguarding of the agency's assets. The OCC continuously strives for strong internal controls by carrying out the guidance provided in the Office of Management and Budget's (OMB) Circular A-123, "Management's Responsibility for Internal Control." The OCC provides additional assurances under other government requirements to demonstrate its strong internal control environment, which is supported by activities that track, maintain, and safeguard the OCC's resources. For example, the OCC provides assurances that its system security program substantially complies with the federal security requirements of the Federal Information Security Management Act of 2002 (FISMA) and that the agency has sufficient controls in place to minimize improper or erroneous payments, as required by the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA).

The OCC is a nonappropriated agency and receives the majority of its funding through assessments and fees paid by banks. The OCC uses these monies to fund its operating costs, which include personnel, travel, and training. These three items represent 75.0 percent of the total annual operating budget.

In FY 2015, the OCC continued to enhance its disciplined budget process, an effort that began in FY 2014. As part of this effort, the OCC created multiple budget work groups that included representatives from business units across the agency, with the goal of creating more effective and efficient processes. This initiative included a revised program costing structure for the agency designed to capture more meaningful information on the use of agency resources. In addition, the OCC implemented a quarterly budget review to allow the agency to realign resources more quickly. The enhanced budget process also improved the OCC's enterprise-wide staffing strategy and created a framework to centralize the process for making decisions regarding OCC office locations. The new budget framework supports the OCC's strategic goal of "One OCC," focused on collaboration, innovation, coordination, and process efficiency.

> The OCC received an unmodified opinion on its financial statements by maintaining a strong internal control environment

Like other federal agencies, the OCC has put a central focus on cybersecurity. The OCC's internal cybersecurity program is managed within the Office of Management. During FY 2015, the OCC adopted a more sophisticated approach to cybersecurity—one designed to better protect the agency's critical information resources through policies, standards, rigorous monitoring, technical controls, and other information assurance processes. To that end, the OCC has implemented rigorous information security controls that use best practices from the private sector and government that meet or exceed National Institute of Standards and Technology requirements and FISMA standards. The agency continually assesses these controls to evaluate their effectiveness. The OCC also maintains and regularly tests continuity of operations and information system contingency plans to ensure that resources and procedures enable effective recovery and reconstitution of the agency's systems and continuity of critical functions in response to disrupted or diminished service conditions.

To further protect its IT infrastructure, in FY 2015 the OCC required its employees to use a personal identity verification (PIV) card to log in to their agency-issued computers. The OCC also deploys technology controls to protect external-facing Web applications, prevent intrusions, and detect the presence of advanced persistent threats within its infrastructure. In addition to increasing its staff and budget levels for cybersecurity, the OCC continuously stresses the importance of security awareness across the organization. This year, all OCC employees who have access to the OCC's network and information resources completed information security and privacy awareness training. This training is critical to ensure that every OCC employee is prepared to meet the important challenge of protecting the integrity, confidentiality, and availability of OCC information.

The OCC's diligent stewardship over its financial resources remains evident through its procurement process. Once again, the OCC surpassed the target goals established by the U.S. Treasury Department for awarding contracts to small businesses, small disadvantaged businesses, and women-owned small businesses. The OCC is proud of its record of consistently meeting and, when possible, exceeding these goals and remains committed to supporting the federal government's social and economic goals related to procurement.

Moving into FY 2016, the OCC retains its commitment and ability to preserve a strong internal control environment that supports the agency's core mission: to ensure that national banks and FSAs operate in a safe and sound manner, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations.

Kathy K. Murphy
Senior Deputy Comptroller for Management and Chief Financial Officer

Financial Summary

The OCC received an unmodified opinion on its FY 2015 and FY 2014 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 U.S. 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 2015 and FY 2014. The financial statements, followed by notes and the auditor's opinion, begin on page 35.

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 2015 was $1,090.7 million, which represents an increase of $33.8 million, or 3.2 percent, from the $1,056.9 million budget in FY 2014. The OCC executed $1,012.5 million, or 92.8 percent, of the FY 2015 budget, compared with $1,026.5 million, or 97.1 percent, executed in FY 2014.

The Statements of Budgetary Resources, found on page 38, 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 2015 and FY 2014.

Cost of Operations

The OCC's net cost of operations is reported in 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 FSAs.

Total program costs for FY 2015 of $1,038.4 million reflect a decrease of $18.7 million, or 1.8 percent, from $1,057.1 million in FY 2014. The change was due primarily to the under-execution of the FY 2015 staffing budget.

Revenues

The OCC's operations are funded primarily by assessments collected from banks, and from interest received on investments in U.S. Treasury securities.

Total FY 2015 revenue of $1,145.6 million reflects a $106.8 million, or 10.3 percent, increase over FY 2014 revenue of $1,038.8 million. Total assets under the OCC's supervision rose as of June 30, 2015, to $11.0 trillion, up 2.8 percent from $10.7 trillion a year earlier.

Interest revenue totaled $16.7 million in FY 2015, an increase of $0.9 million, or 5.7 percent, from interest income of $15.8 million reported in FY 2014. This increase is primarily attributable to the variation (net increase of $141.0 million) in the composition of long-term securities in

Figure 6: Key Components of Financial Condition, as of September 30, 2015 (in Thousands)

	2015	2014	Increase/(Decrease) $	Increase/(Decrease) %
Costs[a]				
Total financing sources	$ 27,571	$ 34,479	$ (6,908)	(20.0%)
Less: net cost	(102,985)	22,733	125,718	553.0%
Net change of cumulative results of operations	$ 130,556	$ 11,746	$ 118,810	1,011.5%
Net position[b]				
Assets				
Fund balance with Treasury	$ 6,513	$ 11,750	$ (5,237)	(44.6%)
Investments	1,541,228	934,743	606,485	64.9%
Property, plant, and equipment, net	128,230	144,515	(16,285)	(11.3%)
Accounts receivable and other	2,831	449,514	(446,683)	(99.4%)
Total assets	$ 1,678,802	$ 1,540,522	$ 138,280	9.0%
Liabilities				
Accounts payable and other accrued liabilities	$ 31,111	$ 30,317	$ 794	2.6%
Accrual payroll and benefits	82,052	78,065	3,987	5.1%
Deferred revenue	279,812	275,507	4,305	1.6%
Other actuarial liabilities	67,436	68,798	(1,362)	(2.0%)
Total liabilities	$ 460,411	$ 452,687	$ 7,724	1.7%
Net position	1,218,391	1,087,835	130,556	12.0%
Total liabilities and net position	$ 1,678,802	$ 1,540,522	$ 138,280	9.0%

Source: OCC financial system data.

[a] Statements of Net Cost and Statements of Changes in Net Position.

[b] Balance Sheets.

the portfolio earning interest during the year. Other income includes revenue received from rental income and reimbursable activities with federal entities. Figure 7 shows the OCC's funding sources for FY 2015 and FY 2014.

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 civil

Figure 7: Funding Sources (in Millions)

	FY 2015	FY 2014	Change ($)	Change (%)
Assessments	$ 1,106.7	$ 1,006.0	$ 100.7	10.0%
Interest and other income	38.9	32.8	6.1	18.6%
Total revenue	**$ 1,145.6**	**$ 1,038.8**	**$ 106.8**	**10.3%**

Source: OCC financial system data.

money penalties (CMP) due the federal government through court-enforced legal actions.

As of September 30, 2015, total assets were $1,678.8 million, an increase of $138.3 million, or 9.0 percent, from the total assets of $1,540.5 million reported on September 30, 2014. The main factors contributing to the net increase in total assets include an increase in investments and related interest of $606.5 million from the investment of additional funds from increased assessment fees this year, and the under-execution of the FY 2015 approved budget, offset by decreases in accounts receivable of $445.9 million, property and equipment of $16.3 million, and $5.3 million in the fund balance with Treasury (FBWT). The significant decrease in accounts receivable (and corresponding increase in investments) is due to the difference in timing for the collection of assessment revenue year-over-year.

In FY 2014, a large portion of the OCC's assessment revenue was not collected until October 1, 2014, resulting in an increase at September 30, 2014, in accounts receivable (and corresponding decrease in investments) for the same amount. In FY 2015, however, all of the OCC's assessment revenue was collected on September 30, 2015, as expected, resulting in the large fluctuation in the accounts receivable balance year-over-year. The decrease in property and equipment resulted primarily from normal depreciation expense realized during the current year.

Investments

The OCC invests available funds in nonmarketable U.S. Treasury securities issued through the Treasury Department's Bureau of the Fiscal Service 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. On September 30, 2015, investments and related interest were $1,541.2 million, compared with $934.7 million the previous year. The increase of $606.5 million, or 64.9 percent, is a result of the investment of additional funds from increased assessment fees, the under-execution of the FY 2015 approved budget, and the timely receipt of bank assessments on September 30, 2015. The market value of the OCC's investment portfolio in excess of book value rose this year to $14.3 million from $7.3 million on September 30, 2014. This $7.0 million increase in market value (95.9 percent) is primarily attributable to the effects of falling interest rates and the variation of portfolio holdings year-over-year because of note maturities and new purchases made during FY 2015.

The OCC's investment portfolio is composed of overnight and longer-term securities. The portions of the portfolio comprising longer-term (core) investments as of September 30, 2015, and September 30, 2014, were $938.5 million, or 61.1 percent, and $797.5 million, or 86.2 percent, respectively. The weighted average maturity of the portfolio decreased year-over-year to 2.25 years as of September 30, 2015, compared with 2.84 years as of September 30, 2014, because a large portion of the OCC's assessment revenue due September 30, 2014, was not collected until October 1, 2014. As a result, the balance in overnight securities at September 30, 2014, was much lower than anticipated, driving up the weighted average maturity of the portfolio as a whole. The portfolio earned an annual yield for FY 2015 of 1.39 percent, compared with 1.49 percent in FY 2014. The OCC calculates annual portfolio yield by dividing the total interest earned during the year by the average ending monthly book value of investments.

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.

As of September 30, 2015, total liabilities were $460.4 million, a net increase of $7.7 million, or 1.7 percent, from total liabilities of $452.7 million on September 30, 2014. The majority of this increase can be attributed to increases of $4.4 million in accrued payroll and benefits and $4.3 million in deferred revenue, offset by a reduction in accounts payable and other accrued liabilities.

Net Position

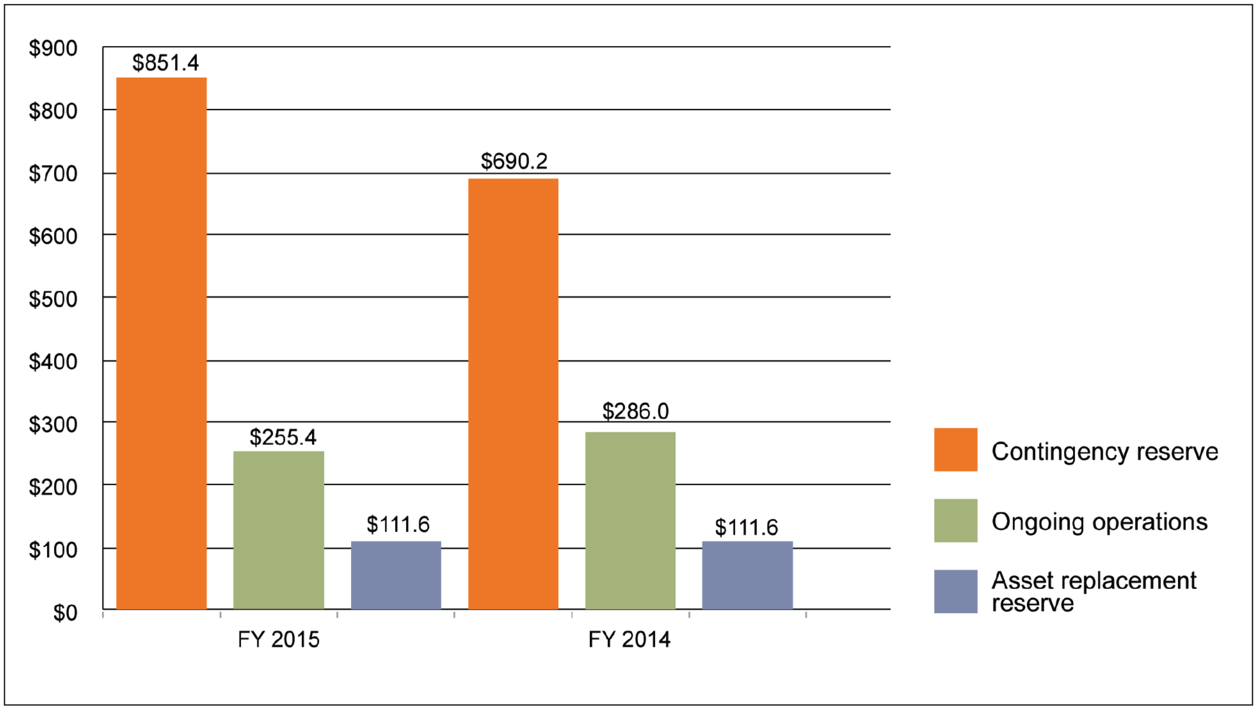
The OCC's net position of $1,218.4 million as of September 30, 2015, and $1,087.8 million as of September 30, 2014, represents the cumulative net excess of the OCC's revenues over the cost of operations. The net position is presented on both the Balance Sheets and the Statements of Changes in Net Position.

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 also supports the OCC's ability to accomplish its mission by being available to reduce the impact on the OCC's operations in the event of a significant fluctuation in revenues or expenses.

The asset replacement reserve is for the replacement of IT investments, leasehold improvements, and furniture. 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.

Figure 8 shows the OCC's composition of net position for FY 2015 and FY 2014.

Figure 8: Composition of Net Position (in Millions)



Source: OCC financial system data.

Office of the Comptroller of the Currency
Balance Sheets

As of September 30, 2015 and 2014
(in Thousands)

	2015	2014
Assets		
Intragovernmental:		
Fund balance with Treasury (Note 2)	$ 6,513	$ 11,750
Investments and related interest (Note 3)	1,541,228	934,743
Accounts receivable (Note 4)	1,143	1,800
Other assets	241	347
Total intragovernmental	**1,549,125**	**948,640**
Accounts receivable, net (Note 4)	1,396	447,297
Property and equipment, net (Note 5)	128,230	144,515
Other assets	51	70
Total assets	**$** 1,678,802	**$ 1,540,522**
Liabilities		
Intragovernmental:		
Accounts payable and other accrued liabilities	$ 7,664	$ 10,213
Total intragovernmental	**7,664**	**10,213**
Accounts payable	2,914	99
Accrued payroll and benefits	33,417	29,024
Accrued annual leave	48,635	49,041
Other accrued liabilities	20,533	20,005
Deferred revenue	279,812	275,507
Other actuarial liabilities (Note 8)	67,436	68,798
Total liabilities	**460,411**	**452,687**
Net position (Note 9)	**1,218,391**	**1,087,835**
Total liabilities and net position	**$** 1,678,802	**$ 1,540,522**

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, 2015 and 2014
(in Thousands)

		2015		2014
Program costs:				
Supervise				
Intragovernmental	$	128,403	$	128,473
With the public		789,469		799,394
Subtotal—supervise	**$**	**917,872**	**$**	**927,867**
Regulate				
Intragovernmental	$	14,424	$	15,739
With the public		85,134		93,904
Subtotal—regulate	**$**	**99,558**	**$**	**109,643**
Charter				
Intragovernmental	$	3,110	$	2,875
With the public		17,879		16,734
Subtotal—charter	**$**	**20,989**	**$**	**19,609**
Total program costs	**$**	**1,038,419**	**$**	**1,057,119**
Less earned revenues not attributed to programs		(1,145,644)		(1,038,851)
Net program costs before gain/loss from changes in assumptions	**$**	**(107,225)**	**$**	**18,268**
Actuarial (gain)/loss (Note 8)		4,240		4,465
Net cost of operations (Note 10)	**$**	**(102,985)**	**$**	**22,733**

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, 2015 and 2014 (in Thousands)

	2015	2014
Beginning balances	$ 1,087,835	$ 1,076,089
Other financing sources:		
Imputed financing (Note 11)	27,571	34,479
Net cost of operations	102,985	(22,733)
Net change	130,556	11,746
Ending balances	**$ 1,218,391**	**$ 1,087,835**

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, 2015 and 2014
(in Thousands)

		2015		2014
Budgetary resources:				
Unobligated balance, brought forward, October 1	$	703,474	$	1,076,391
Recoveries of prior year unpaid obligations		1,159		0
Unobligated balance from prior year budget authority, net		704,633		1,076,391
Spending authority from offsetting collections		1,592,858		640,892
Total budgetary resources	**$**	**2,297,491**	**$**	**1,717,283**
Status of budgetary resources:				
Obligations incurred	$	995,855	$	1,013,809
Exempt from apportionment		1,301,636		703,474
Total unobligated balance, end of year		1,301,636		703,474
Total budgetary resources	**$**	**2,297,491**	**$**	**1,717,283**
Change in obligated balance:				
Unpaid obligation balance brought forward, October 1	$	234,172	$	223,736
Obligations incurred		995,855		1,013,809
Outlay (gross)		(991,178)		(1,003,374)
Recoveries of prior year unpaid obligations		(1,159)		0
Unpaid obligation, end of year		237,690		234,171
Uncollected payment, federal source brought forward, October 1		(5,040)		(4,746)
Change in uncollected payment, federal source		195		(294)
Uncollected payment, federal source, end of year		(4,845)		(5,040)
Memorandum (non-add) entries				
Obligated balance, start of year	$	229,132	$	218,990
Obligated balance, end of year	$	232,845	$	229,131
Budget authority and outlays, net:				
Budget authority, gross	$	1,592,858	$	640,892
Actual offsetting collections		(1,593,053)		(640,598)
Change in uncollected payment from federal source		195		(294)
Budget authority, net		0		0
Outlay, gross		991,178		1,003,374
Actual offsetting collections		(1,593,053)		(640,598)
Agency (inlay) outlay, net	**$**	**(601,875)**	**$**	**362,776**

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, 2015 and 2014
(in Thousands)

	2015	2014
Revenue activity:		
Sources of cash collections		
Civil money penalties	$ 1,076,730	$ 379,337
Accrual adjustment	(4,072)	3,873
Total custodial revenue	1,072,658	383,210
Disposition of custodial revenue:		
Transferred to Treasury	1,076,730	379,337
(Increase)/decrease in amounts yet to be transferred	(4,072)	3,873
Total disposition for custodial revenue	1,072,658	383,210
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 banks. The OCC's major programs support the agency's overall mission by ensuring that banks operate in a safe and sound manner, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations.

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 FASAB 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 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 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 banks, from income on investments in nonmarketable U.S. Treasury securities, and from rent 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 cost of the

OCC's operations in accordance with policies established by the Comptroller of the Currency.

Funds From Dedicated Collections

In accordance with 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 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 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. Allowable internal-use software costs are capitalized. The OCC expenses purchases and software development costs 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 of receipt of invoices and other relevant documents in accordance with OMB Memorandum M 12-16, "Providing Prompt Payment to Small Business Subcontractors," 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 banks. These assessments are due March 31 and September 30 of each year, based on the institutions' 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 Defined Benefit (DB) Plan. The CSRS and FERS are administered by the U.S. 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 the 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 benefit costs via imputing to the 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 former Office of Thrift Supervision (OTS) and is closed to new entrants. The OCC does not report Pentegra assets or accumulated plan benefits that may be applicable to its employees in its financial statements; these amounts are reported by Pentegra.

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 (TSP). FERS employees can receive up to 4.0 percent in OCC matching contributions, in addition to an automatic contribution of 1.0 percent of adjusted base pay. The OCC's contributions to the TSP totaled $19.8 million and $19.2 million for FY 2015 and FY 2014, respectively, and are included as a component of "Personnel compensation and benefits" illustrated in Note 10, "Net Cost of Operations."

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 TSP and the OCC-sponsored 401(k) plan. The OCC matches 100 percent of the first 1.0 percent of employee contributions to the OCC 401(k) plan and provides an automatic employer contribution of 4.0 percent of adjusted base pay.

As required by law, for former OTS employees transferred to the OCC, the OCC continues to offer a separate 401(k) plan. The OTS 401(k) plan is a multi-employer plan. The amount of each participant's matching contribution is based on the applicable retirement system under which each participant is covered. For those who participate in FERS, the CSRS, or the CSRS Offset, the OCC provides an automatic contribution of 4.0 percent of adjusted base pay and an additional matching contribution of up to 1.0 percent. For those who participate in the Financial Institutions Retirement Fund, the OCC provides an automatic contribution of 4.0 percent of adjusted base pay and an additional matching contribution of up to 3.0 percent.

The OCC's contributions to the 401(k) plans totaled $29.2 million and $28.8 million for FY 2015 and FY 2014, respectively, and are included as a component of "Personnel compensation and benefits," as illustrated in Note 10, "Net Cost of Operations."

Federal Employees Health Benefit 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. The OCC's life insurance benefit 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 performed 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, "Accounting and Reporting by Health and Welfare Benefit Plans."

Custodial Revenues and Collections

Non-entity receivables, liabilities, and revenue are recorded as custodial activity in the Statements of 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 monthly.

Effects of Recent Accounting Pronouncements

On October 1, 2014, the Treasury Department implemented SFFAS No. 44, "Accounting for General Property, Plant, and Equipment Remaining in Use," which was published by the FASAB on January 3, 2013. SFFAS No. 44 provides accounting and reporting requirements for partial impairments of general property, plant, and equipment (G-PP&E) remaining in use and construction work in process. This statement does not establish new accounting guidance but rather incorporates the existing guidance (to the extent appropriate in the federal government environment) into the FASAB standards. The OCC follows guidance outlined in SFFAS No. 6, "Accounting for Property, Plant, and Equipment," and SFFAS No. 10, "Accounting for Internal Use Software," regarding G-PP&E impairment. SFFAS No. 6 contains principles-based guidance regarding total impairment of G-PP&E. SFFAS No. 10 provides guidance for the impairment of internal-use software. The OCC's current process has not resulted (nor is projected to result) in the identification of G-PP&E impairment. As a result, G-PP&E impairment is not considered (or projected to be) a material component of the OCC's G-PP&E. The OCC adopted SFFAS No. 44 upon issuance, as required, without material effect.

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 consists of one U.S. Treasury fund symbol designated as a trust fund and established by 12 USC 481, which 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.

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 non-budgetary 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, 2015, 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 2015 and FY 2014.

Fund Balance With Treasury (in Thousands)

	FY 2015		FY 2014	
Fund balance				
Trust fund	$	6,513	$	11,750
Status of FBWT				
Unobligated balance—available	$	1,301,636	$	703,474
Obligated balance not yet disbursed		232,844		229,131
Non-budgetary FBWT		(1,527,967)		(920,855)
Total	**$**	**6,513**	**$**	**11,750**

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 $1,551.8 million on September 30, 2015, and $938.8 million on September 30, 2014. The overall portfolio earned an annual yield of 1.4 percent for FY 2015 and 1.5 percent for FY 2014.

The yield-to-maturity on the non-overnight portion of the OCC's investment portfolio ranged from 0.2 percent to 4.0 percent on September 30, 2015, and from 0.3 percent to 4.0 percent on September 30, 2014.

FY 2015 Investments and Related Interest (in Thousands)

	Cost	Amortization method	Amortized (premium) discount	Investments, net	Market value disclosure
Intragovernmental securities:					
Nonmarketable market-based	$ 1,548,208	Effective interest	$ (10,683)	$ 1,537,525	$ 1,551,788
Accrued interest	3,703		0	3,703	3,703
Total intragovernmental investments	$ **1,551,911**		$ **(10,683)**	$ **1,541,228**	$ **1,555,491**

FY 2014 Investments and Related Interest (in Thousands)

	Cost	Amortization method	Amortized (premium) discount	Investments, net	Market value disclosure
Intragovernmental securities:					
Nonmarketable market-based	$ 947,751	Effective interest	$ (16,248)	$ 931,503	$ 938,829
Accrued interest	3,240		0	3,240	3,240
Total intragovernmental investments	**$ 950,991**		**$ (16,248)**	**$ 934,743**	**$ 942,069**

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 include pension-sharing costs for former OTS employees transferred to other federal agencies rather than to the OCC. Also included are CMP amounts assessed against people or banks 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 $1,076.7 million and $379.3 million in CMP non-entity revenue as of September 30, 2015 and 2014, respectively. In FY 2014, the amount shown for nonfederal receivables includes assessment fees due from banks.

FY 2015 Accounts Receivable (in Thousands)

	Gross	Allowance for uncollectible accounts	Accounts receivable, net
Federal receivables	$ 1,143	$ 0	$ 1,143
CMP receivables	1,294	0	1,294
Nonfederal receivables	128	(26)	102
Total accounts receivable	**$ 2,565**	**$ (26)**	**$ 2,539**

FY 2014 Accounts Receivable (in Thousands)

	Gross	Allowance for uncollectible accounts	Accounts receivable, net
Federal receivables	$ 1,800	$ 0	$ 1,800
CMP receivables	5,366	0	5,366
Nonfederal receivables	441,996	(65)	441,931
Total accounts receivable	**$ 449,162**	**$ (65)**	**$ 449,097**

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 or amortized. Major alterations and renovations, including leasehold and land improvements, are capitalized, while maintenance and repair costs are expensed 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 2015 and FY 2014, the OCC recognized $9.7 million and $1.7 million, respectively, of fully depreciated assets or expired leasehold assets removed from service. In FY 2015 and FY 2014, the OCC recognized a loss of $192,314 and $14,200, respectively, on asset disposal. The figures below summarize property and equipment balances as of September 30, 2015 and 2014.

The OCC's 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 2015 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	(36,024)	13,164
Leasehold improvements	50	5-20	112,873	(46,567)	66,306
Equipment	50	3-10	55,424	(37,893)	17,531
Internal-use software	500	5	104,974	(85,974)	19,000
Internal-use software—development	500	NA	5,128	0	5,128
Leasehold improvements—development	50	NA	0	0	0
Total			**$ 334,688**	**$ (206,458)**	**$ 128,230**

FY 2014 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	(34,971)	14,217
Leasehold improvements	50	5-20	110,152	(36,736)	73,416
Equipment	50	3-10	55,745	(37,030)	18,715
Internal-use software	500	5	108,373	(80,054)	28,319
Internal-use software—development	500	NA	2,695	0	2,695
Leasehold improvements—development	50	NA	52	0	52
Total			**$ 333,306**	**$ (188,791)**	**$ 144,515**

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 noncancelable 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 rental income through FY 2021 and thereafter, not including renewals, is shown below.

FY 2015 Future Rental Income (in Thousands)

Year	Amount
2016	$ 12,838
2017	13,022
2018	13,265
2019	13,501
2020	13,613
2021 and beyond	170,367
Total	$ **236,606**

FY 2014 Future Rental Income (in Thousands)

Year	Amount
2015	$ 12,456
2016	12,704
2017	12,849
2018	13,100
2019	13,363
2020 and beyond	184,266
Total	**$ 248,738**

Note 7—Leases

The OCC leases equipment and office space for its headquarters operations in Washington, D.C., and for district and field operations. All of the OCC's leases are recorded as operating leases, and the costs are included in the Statements of Net Cost.

The future minimum lease payments through FY 2021 and thereafter, not including renewals, are shown below.

FY 2015 Future Lease Payments (in Thousands)

Year	Amount
2016	$ 57,049
2017	59,175
2018	56,872
2019	53,135
2020	49,855
2021 and beyond	315,010
Total	$ **591,096**

FY 2014 Future Lease Payments (in Thousands)

Year	Amount
2015	$ 55,163
2016	54,224
2017	55,475
2018	49,929
2019	47,080
2020 and beyond	320,537
Total	**$ 582,408**

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 2015	FY 2014
Post-retirement life insurance benefits	$ 59,465	$ 61,275
Federal Employees' Compensation Act	6,616	6,547
Pentegra DB Plan	1,355	976
Total actuarial liabilities	$ **67,436**	**$ 68,798**

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 4.6 percent. Gains or losses owing to changes in actuarial assumptions are amortized over the service life of the plan.

Total periodic post-retirement life insurance 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 in the Statements of Net Cost, as required.

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

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 2015 present values of these estimated outflows are calculated using a discount rate in the first year of 3.13 percent for wage benefits and 2.50 percent for medical benefits, and rates of 3.13 percent and 2.50 percent, respectively, in subsequent years. For FY 2014 the discount rates for wage and medical benefits were 3.46 percent and 2.86 percent, respectively, in the first year and 3.46 percent and 2.86 percent, respectively, 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

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

Change in actuarial and accrued benefits	FY 2015	FY 2014
Actuarial post-retirement liability beginning balance	$ 61,275	$ 53,258
Actuarial expense		
Normal cost	1,261	1,124
Interest on the liability balance	2,733	2,766
Actuarial (gain)/loss		
From experience	461	1,548
From assumption changes	(4,240)	4,465
Prior service costs	0	0
Total expense	215	9,903
Less amounts paid	(2,025)	(1,886)
Actuarial post-retirement liability ending balance	$ **59,465**	**$ 61,275**

retirement system—the Pentegra DB Plan. The Pentegra DB Plan is a tax-exempt, multi-employer, defined-benefit pension plan in which all costs are paid by the employer into one general account. A multi-employer plan is one to which two or more employers contribute. Multi-employer plans differ from single-employer plans in that a single-employer plan is available to participants from only one employer, while the multi-employer plan includes participants from multiple employers. Both plan types are pensions, but unlike multi-employer plans, which allow employees to maintain their pension accounts when they move from one employer to another within the same pension plan, single-employer pension plans only allow employees to build their share in a plan while they remain with that particular employer. At retirement, employees may either receive a lump sum payment or choose an annuity/lump sum split. The Pentegra plan year begins in July and ends in June.

In FY 2015 and FY 2014, the OCC paid $3.9 million and $3.3 million, and recognized plan expenses of $4.3 million and $3.5 million, respectively. At September 30, 2015 and 2014, the OCC accrued $1.4 million and $1.0 million, which represents the portion of the plan expenses from July to September of each fiscal year that is paid in the following fiscal year. The increase in plan expenses resulted from an increase of $1.6 million in Pension Benefit Guaranty Corporation premiums related to the pension legislation passed by Congress in 2014.

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 2015 and FY 2014.

Net Position Availability (in Thousands)

Component	FY 2015	FY 2014
Contingency reserve	$ 851,409	$ 690,162
Asset replacement reserve	111,600	111,600
Set aside for ongoing operations:		
Undelivered orders	79,101	94,042
Consumption of assets	138,081	155,580
Capital investments	38,200	36,451
Net position	**$ 1,218,391**	**$ 1,087,835**

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 in the Statements of Changes in Net Position; in Note 11, "Imputed Costs and Financing Sources"; and in Note 12, "Reconciliation of Net Cost of Operations to Budget."

The following figure illustrates the OCC's operating expense categories for FY 2015 and FY 2014.

Net Cost of Operations by Expense Category (in Thousands)

Component	FY 2015	FY 2014
Personnel compensation and benefits	$ 723,177	$ 726,085
Contractual services	115,223	114,419
Rent, communication, and utilities	70,893	73,081
Travel and transportation of persons and things	57,005	59,725
Imputed costs	27,571	34,479
Depreciation	27,902	25,988
Other	20,888	27,807
Total	$ **1,042,659**	$ **1,061,584**

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, the OPM provides federal agencies with cost factors for the computation of current year imputed costs. These cost factors are multiplied by the current year salary or number of employees, as applicable, to provide an estimate of the imputed financing that OPM trust funds will provide for each agency.

The imputed costs categories for FY 2015 and FY 2014 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 2015	FY 2014
Retirement	$ 11,721	$ 19,292
Federal Employees Health Benefits	15,800	15,145
Federal Employees' Group Life Insurance	50	42
Total	$ **27,571**	$ **34,479**

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 2015, the statement on the next page shows total offsetting collections exceeding resources used by $570.6 million. This is a net decrease of $978.0 million from FY 2014, when resources used exceeded offsetting collections by $407.4 million. The year-over-year change resulted primarily from a $953.1 million increase in spending authority from offsetting collections, which is due to a large portion of the OCC's assessment revenue being collected on October 1, 2014, rather than September 30, 2014. This increase was netted against the decrease of $18.0 million in resources used (obligations incurred) and the $6.9 million decrease in imputed financing.

Office of the Comptroller of the Currency, Reconciliation of Net Cost of Operations to Budget for the Years Ended September 30, 2015 and 2014 (in Thousands)

		FY 2015		FY 2014
Resources used to finance activities				
Budgetary resources obligated				
Obligations incurred	$	995,855	$	1,013,809
Less: Spending authority from offsetting collections		(1,594,017)		(640,892)
Net obligations		(598,162)		372,917
Other resources				
Imputed financing sources (Note 11)		27,571		34,479
Total resources used to finance activities	$	(570,591)	$	407,396
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		3,999		1,160
Resources that finance the acquisition of assets		(11,110)		(13,845)
Total resources used to finance items not part of the net cost of operations		(7,111)		(12,685)
Total resources used to finance the net cost of operations	$	(577,702)	$	394,711
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		275,442		36,235
Increase in exchange revenue receivable from the public		170,692		(438,134)
Total components that will require or generate resources in future periods		446,134		(401,899)
Components not requiring or generating resources				
Depreciation and amortization		27,203		25,974
Net increase (decrease) in bond premium		1,090		3,933
Other		290		14
Total components that will not require or generate resources		28,583		29,921
Total components of net cost of operations that will not require or generate resources in the current period		474,717		(371,978)
Net cost of operations	**$**	**(102,985)**	**$**	**22,733**

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, 2015, the OCC neither identified nor recognized any contingent liabilities. As of September 30, 2014, there were two contingencies for litigation involving the OCC. For one of these, there was a reasonable possibility that the OCC would incur a loss of $450,000. For the second contingency where the risk of loss was probable, the OCC recorded a liability of $1.3 million for FY 2014.

WILLIAMS ADLEY

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 Sheets of the Office of the Comptroller of the Currency (OCC) as of September 30, 2015 and 2014 and the related Statements of Net Cost, Changes in Net Position, Budgetary Resources and Custodial Activity for the years then ended, and the related notes to the financial statements (hereinafter referred to as 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. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 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

WILLIAMS, ADLEY & COMPANY-DC, LLP
Certified Public Accountants / Management Consultants
1030 15th Street, NW, Suite 350 West • Washington, DC 20005 • (202) 371-1397 • Fax: (202) 371-9161
www.williamsadley.com

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, 2015 and 2014, and its net cost, changes in net position, budgetary resources and custodial activity for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information in the Letter to the Chief Financial Officer, Financial Summary, and Other Accompanying Information 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, and Four of OCC's fiscal year 2015 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 October 30, 2015, 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, Adley & Company-DC, LLP

Washington, D.C.
October 30, 2015

WILLIAMS ADLEY

Independent Auditor's 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.15-02, *Audit Requirements for Federal Financial Statements*, the balance sheets 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 years ended September 30, 2015, and 2014 and the related notes to the financial statements, which collectively comprise OCC's basic financial statements, and have issued our report thereon dated October 30, 2015.

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.

WILLIAMS, ADLEY & COMPANY-DC, LLP
Certified Public Accountants / Management Consultants
1030 15th Street, NW, Suite 350 West • Washington, DC 20005 • (202) 371-1397 • Fax: (202) 371-9161
www.williamsadley.com

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. In our fiscal year 2015 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. Given these limitations, material weaknesses may exist that have not been identified.

Although not considered to be a material weakness or a significant deficiency, we noted a certain matter that was communicated to management in a separate letter.

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.

Williams, Adley & Company-DC, LLP

Washington, D.C.
October 30, 2015

WILLIAMS ADLEY

Independent Auditor's 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. 15-02, *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 years ended September 30, 2015, and 2014 and the related notes to the financial statements, which collectively comprise OCC's basic financial statements, and have issued our report thereon dated October 30, 2015.

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. 15-02. 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. 15-02.

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.

WILLIAMS, ADLEY & COMPANY-DC, LLP
Certified Public Accountants / Management Consultants
1030 15th Street, NW, Suite 350 West • Washington, DC 20005 • (202) 371-1397 • Fax: (202) 371-9161
www.williamsadley.com

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.

Williams, Adley & Company-DC, LLP

Washington, D.C.
October 30, 2015

Other Accompanying Information

Performance Measures and Results

The OCC's FY 2015 performance measures, workload indicators, customer service standards, and results are presented in figure 9. They respond to the requirements for most agencies to set goals, measure performance, and report the information to Congress as established in the GPRA Modernization Act of 2010 (GPRAMA). The "GPRA" in the act's title refers to the Government Performance and Results Act of 1993, a law designed to improve program management throughout the federal government and one that the GPRAMA substantially modified when it became law in January 2011.

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

Strategic goal	Performance measures, workload indicators, and customer service standards	FY 2012	FY 2013	FY 2014	FY 2015	
					Target	Actual
I. A vibrant and diverse system of banks that supports a robust U.S. economy						
	Percentage of banks with composite capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk (CAMELS) rating of 1 or 2	76%	80%	87%	90%	91%
	Rehabilitated problem banks as a percentage of the problem banks one year ago (CAMELS 3, 4, or 5)[a]	27%	34%	39%	40%	39%
	Percentage of banks that are well capitalized	92%	94%	93%	95%	95%
	Percentage of critically undercapitalized banks on which responsible action is taken within 90 calendar days after they become critically undercapitalized	100%	100%	100%	100%	100%
	Average survey response that the report of examination clearly communicated: a. Supervisory findings b. Significant issues c. Corrective actions with time frames[b]	1.41 Combined	1.35 Combined	1.59 Combined	< 1.50 < 1.50 < 1.50	1.54 1.59 1.58
	Percentage of banks with consumer compliance rating of 1 or 2. For institutions with assets more than $10 billion, these ratings reflect only those laws and regulations for which the OCC has enforcement and supervisory authority	93%	94%	95%	94%	96%
	Percentage of community banks that are within one year of their first Intermediate Small Bank or Large Bank CRA 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	56%	71%	51%	80%	78%
	Number of consumer complaints opened/closed during the fiscal year[c]	66,161/ 59,130	44,370/ 44,274	27,783/ 73,806	24,000/ 26,000	22,468/ 25,263
II. "One OCC" focused on collaboration, innovation, coordination, and process improvement						
	Total OCC costs relative to every $100,000 in assets regulated	$10.51	$9.99	$9.75	$10.20	$9.37

Strategic goal	Performance measures, workload indicators, and customer service standards	FY 2012	FY 2013	FY 2014	FY 2015	
					Target	Actual
III. The OCC is firmly positioned to continue to operate independently and effectively into the future						
	Percentage of external legal opinions issued within established time frames	90%	96%	95%	90%	97%
	Number of external legal opinions issued during the fiscal year	59	44	37	60	29
	Percentage of licensing applications and notices filed electronically	42%	39%	41%	35%	41%
	Number of licensing applications and notices filed electronically during the fiscal year	1,374	1,320	1,251	1,100	1,248
	Percentage of licensing applications and notices completed within established time frames	98%	97%	98%	95%	97%
	Number of licensing applications and notices completed during the fiscal year	1,614	2,378	2,624	2,100	2,524
	Average survey rating of the overall licensing services provided by the OCC[d]	1.22	1.25	1.20	≤ 1.5	1.20

[a] The current percentage in this performance measure is very close to target. The OCC continues to closely monitor the performance of all of its institutions and take appropriate action on a timely basis to facilitate the recovery of problem institutions.

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

[c] Total complaint cases include complaints against banks regulated by the OCC; complaints referred to other regulators (CFPB, Federal Reserve Board, FDIC, state banking agencies) and others; and complaints received from other regulators and others. The Customer Assistance Group identifies complaints received from these sources as “total complaints.”

[d] 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

IPERIA, 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 made during FY 2015 and identified 257 erroneous payments requiring adjustments totaling $133,191. The increase in erroneous payments year-over-year is primarily attributable to a change in methodology, which now includes payroll and other administrative reimbursements to employees. 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. In addition, the OCC has been working with the Treasury Department to implement the Do Not Pay (DNP) initiative per OMB guidelines. Through a combination of vendor reviews before the contract award, Treasury pay file reviews, and DNP continuous monitoring efforts, the OCC ensures effective controls are in place to limit payments to ineligible vendors and to meet the DNP requirements of IPERIA. Future steps in the ongoing implementation include continuous monitoring of all OCC vendors using the DNP continuous monitoring tool.

The OCC corrected and recovered all erroneous payments made during the year. Figure 10 summarizes the OCC's erroneous payments for FY 2015 and FY 2014.

Figure 10: Erroneous Payments

	FY 2015	FY 2014
Number of payments	257	134
Dollar value of adjustments	$133,191	$74,996

Source: OCC financial system 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) 2015.

The OCC's systems of management control are designed to 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;
- systems security is in substantial compliance with relevant requirements;
- continuity of operations planning in critical areas is sufficient to reduce risk to reasonable levels;
- financial management systems are in compliance with federal financial systems standards, i.e., FMFIA Section 4 and FFMIA;
- complete and accurate data are reported on USAspending.gov; and
- controls and policies are in place to prevent fraud and inappropriate use of government charge cards.

I am providing unqualified assurance that the OCC achieved the above listed management control objectives without material weakness during FY 2015. 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, 2015, 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 the management letter that accompanied their FY 2014 financial statement audit report, our external auditors identified one area related to developing an executable recovery strategy for the OCC network where the OCC has an opportunity to strengthen internal controls. The OCC plans to complete the corrective action for this issue by October 1, 2016. The OCC's strategy 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.

Analytical Basis of Assurance Statement

The OCC evaluated its management controls in accordance with the FY 2015 Secretary's Assurance Statement Guidance of July 10, 2015, 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;
- 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 2015;
- audit reports and evaluations issued by the Government Accountability Office and the Treasury Office of the Inspector General;
- results of other external and internal reviews;
- assessment of the Improper Payments Elimination and Recovery Improvement Act submitted to the Department of the Treasury in July 2015;
- FFMIA Final Compliance Determination Worksheet submitted to the Department of the Treasury in September 2015;
- unmodified and timely audit opinion on FY 2014 financial statements; and
- certified public accountant Williams Adley's October 2015 status report on the FY 2015 financial statement audit, in which no reportable items were noted.

Thomas J. Curry
Comptroller of the Currency

Abbreviations

ADC	Assistant Deputy Comptroller
AMC	appraisal management company
AML	anti-money laundering
ASC	Accounting Standards Codification
BSA	Bank Secrecy Act
CAMELS	capital adequacy, 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
DB	defined benefit
DNP	Do Not Pay
EGRPRA	Economic Growth and Regulatory Paperwork Reduction Act
ERM	Enterprise Risk Management
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
FBWT	fund balance with Treasury
FDIC	Federal Deposit Insurance Corporation
FEGLI	Federal Employees' Group Life Insurance

FEHB	Federal Employees Health Benefit
FERS	Federal Employees Retirement System
FFIEC	Federal Financial Institutions Examination Council
FFMIA	Federal Financial Management Improvement Act
FinCEN	Financial Crimes Enforcement Network
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act
FSA	federal savings association
FY	fiscal year
GAO	Government Accountability Office
GAAP	generally accepted accounting principles
G-PP&E	general property, plant, and equipment
GPRAMA	GPRA [Government Performance and Results Act] Modernization Act
IPERIA	Improper Payments Elimination and Recovery Improvement Act
IT	information technology
MLA	Military Lending Act
NRC	National Risk Committee
OCC	Office of the Comptroller of the Currency
OMB	Office of Management and Budget
OMWI	Office of Minority and Women Inclusion
OPM	Office of Personnel Management

OTS	Office of Thrift Supervision
PIV	personal identity verification
QRM	qualified residential mortgage
RAD	Rental Assistance Demonstration
RAS	Risk Assessment System
ROE	return on equity
SAR	suspicious activity report
SCRA	Servicemembers Civil Relief Act
SFFAS	Statement of Federal Financial Accounting Standards
TSP	Thrift Savings Plan

Index

D

E

F

P

Q

R

S

T

U

V

W

OCC FOR YOU

The OCC Web site, occ.gov, provides resources and information about the agency's programs. Scan the QR code or visit occ.gov for additional information.

Bankers

The OCC provides resources, references, and links to the forms you need to meet regulatory requirements. We also help you stay on top of the ever-changing regulatory environment with guidance, conferences, educational opportunities, publications, telephone seminars, webinars, and more.

Bank Customers

The OCC provides a great resource for consumers through HelpWithMyBank.gov. Here, you'll find answers to frequently asked questions and resources for resolving issues you may have with your bank. We also provide links to consumer-oriented legislation and to helpful articles on the federal banking regulations that most affect you.

Job Seekers

Whether you're just starting out or seeking career advancement, you'll find challenging, interesting positions at the OCC. In addition to current job openings, you'll find an overall description of our excellent benefits package. Our career descriptions will give you an idea of what it's like to work with us.

OCC Alumni

Retirees and former employees remain a vital part of the OCC family and we welcome your experience, ideas, and opinions. You'll find information, resources, and links on our Web site to help you stay in touch, informed, and engaged.

Media Representatives

Whether you are tracking current banking legislation, searching for a historical reference, seeking an interview with OCC staff, or trying to understand a regulatory policy or national banking issue, we have the resources you need to get the facts for your story.

Information About the OCC's Diversity and Inclusion Programs

We value a smart, diverse workforce and support a number of programs to help attract, develop, and retain the best talent regardless of race, national origin, gender, physical abilities, or age.

Information About the OCC's Minority Outreach

The OCC recognizes that minority-owned banks have unique circumstances and needs, and we provide resources, guidance, conferences, educational opportunities, publications, telephone seminars, webinars, and more tailored to address those needs. We also maintain an important connection between minority-owned banks, federal regulators, and others in the financial services industry.

OFFICE OF THE COMPTROLLER OF THE CURRENCY