

Office of Thrift Supervision



OMB FY2007 Budget & Performance Plan

Submitted January 2007

This document describes the mission, goals, and performance results of the Office of Thrift Supervision. It also provides OTS's FY 2007 approved budget and strategies.

Although OTS receives no appropriated funds from Congress, OTS provided this budget information to the Department of the Treasury for inclusion in the Justification for Appropriations and Performance Plans that Treasury submitted to Congress on February 5, 2007.

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Office of Thrift Supervision

Mission Statement

To supervise savings associations and their holding companies in order to maintain their safety and soundness and compliance with consumer laws and to encourage a competitive industry that meets America's financial services needs.

Program Summary by Account

Dollars in Thousands

	FY 2006	FY 2007	FY 2008		
	Obligated	Estimated	Estimated	\$ Change	% Change
Supervision of the Thrift Industry	\$199,497	\$232,500	\$238,313	\$5,813	2.50%
Total Resources	\$199,497	\$232,500	\$238,313	\$5,813	2.50%

FY 2007 Priorities

OTS's FY 2007 Priorities are set forth below:

- Examine, supervise, and regulate 853 savings associations with total assets of \$1.63 trillion,
- Examine and regulate 481 registered holding company enterprises with total assets of \$7.7 trillion,
- Tailor examinations to the risk profile of the institution and streamline the examination of smaller institutions,
- Conduct safety and soundness examinations of savings associations every 12-18 months that also incorporate an assessment of compliance with consumer protection laws and regulations,
- Promote the reduction of regulatory burden,
- Coordinate supervisory and policy development activities with relevant domestic and foreign financial regulators,
- Abate money laundering and terrorist financing by examining savings associations for compliance with the Bank Secrecy Act, the USA PATRIOT Act, and other anti-money laundering laws,
- Promote the benefits of the thrift charter and the important role of community-based thrifts,
- Continue efforts to implement the international Basel II risk-based capital framework, and
- Address succession planning.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

Established by Congress as a bureau of the Department of the Treasury on August 9, 1989, the Office of Thrift Supervision (OTS) charters, examines, supervises, and regulates Federal savings associations insured by the Federal Deposit Insurance Corporation (FDIC). OTS's primary statutory authority is the Home Owners' Loan Act originally enacted in 1933. OTS also examines, supervises, and regulates state-chartered savings associations insured by the FDIC and provides for the registration, examination, and regulation of savings and loan holding companies (SLHCs) and other affiliates.

The thrift charter has several unique characteristics including nationwide branching under a single charter; a holding company structure offering a single regulator for the holding company and its subsidiary depository institution; and preemption authority. OTS is the only federal-banking agency that both charters depository institutions and supervises their holding companies. The holding companies are diverse, ranging from large, multinational corporations to small companies with few assets other than their thrift charter.

The thrift industry is strong and operating safely. As of September 2006, OTS regulated 853 savings associations with total assets of \$1.63 trillion. Savings associations operate in a safe and sound manner with 93 percent achieving an overall composite CAMELS rating of 1 or 2. The CAMELS rating reflects OTS's evaluation of an institution's Capital, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to market risk. The industry's capital position remains strong with over 99 percent of savings associations meeting the well-capitalized standards.

As of September 2006, OTS supervised 481 holding company enterprises with approximately \$7.7 trillion in consolidated assets. Over half of all savings associations and 78 percent of total savings association assets are owned by OTS-regulated holding companies.

OTS is headquartered in Washington, D.C. with four regional offices located in Jersey City, Atlanta, Dallas, and San Francisco. The headquarters office develops nationwide policies and programs for the agency and coordinates the operations of OTS. The regional offices examine and supervise institutions and process most applications. Approximately 75 percent of OTS's staff of 965 employees work in regional offices.

The President, with Senate confirmation, appoints OTS's Director for a 5-year term. OTS's Director also serves as a member of the Board of Directors of the Federal Deposit Insurance Corporation (FDIC), a member of the Federal Financial Institutions Examination Council (FFIEC), and a director of NeighborWorks® America.

OTS Strategic Goals and Vision

For this year's budget submission, OTS used the four strategic goals outlined in its 2003-2008 Strategic Plan.

- A safe and sound thrift industry,
- A flexible legal and regulatory framework that enables the thrift industry to provide a full competitive array of financial services,
- Fair access to financial services and fair treatment of thrift customers, and
- A professional and motivated workforce that provides exceptional service to its customers and supports achievement of OTS business goals.

OTS's Strategic Plan will be updated during FY 2007 to incorporate revised strategies and goals. OTS adopted the following vision statement as its initial step for the new plan:

To perform, and to be recognized, as the premier regulator of financial institutions and holding companies.

OTS Strategic Priorities

OTS's FY 2007 budget of \$232.5 million supports OTS's strategic and performance goals that provide for proactive supervision of the industry, reduced regulatory burden, and improved credit availability. The FY 2007 budget enables OTS to tailor supervisory examinations to the risk profile of the institutions, while effectively allocating resources to oversee and assess the safety and soundness and consumer compliance record of the thrift industry.

OTS's budget supports the supervision program. OTS receives no appropriated funds from Congress; the income of the bureau is derived principally from assessments on savings associations and savings and loan holding companies.

OTS's FY 2007 budget finances OTS's efforts to address these key strategic issues and challenges:

- Comprehensive and Risk-Focused Examinations,
- Interest Rate and Credit Risks,
- Compliance Risks, Financial Crimes, and Data Breaches,
- Disaster and Emergency Preparedness,
- Global Financial Services,
- Regulatory Burden Reduction,
- Promotion of the Thrift Charter, and
- Succession Planning and Management of OTS Resources.

1B – Program History and Future Outlook

OTS examines savings associations every 12-18 months for safety and soundness and compliance with consumer protection laws and regulations. During these exams, the association's ability to identify, measure, monitor, and control risk is evaluated, including the risk posed by other entities within the corporate structure. When weaknesses are identified, supervisory action is taken.

The following activities highlight FY 2006 OTS accomplishments and strategic FY 2007 challenges.

Comprehensive Examination Approach

OTS conducts a comprehensive examination combining safety and soundness and compliance reviews to eliminate multiple reviews of the same area for different purposes. OTS examination teams issue one report of examination that covers both compliance and safety and soundness. This approach allows OTS to comprehensively assess an institution's risk management programs, business strategy, and operations. OTS is also able to evaluate compliance management programs and compliance with the Bank Secrecy Act, Fair Lending, and other requirements on a more frequent basis.

OTS is more efficient and has reduced regulatory burden due to its comprehensive examination approach. It issues one information request package at the start of each examination and examines lending portfolios from both compliance and safety and soundness perspectives at the same time. OTS also prepares one comprehensive examination report that details all examination findings. Over time, OTS expects this comprehensive approach will reduce savings association cost and burden while promoting efficient, risk-focused examinations. The majority of OTS-regulated institutions indicate a favorable response to the comprehensive examination approach.

To maintain its rigorous staff accreditation standards, OTS requires that its examiners: 1) undergo formal, informal, and independent training, 2) pass proficiency tests, 3) receive on-the-job training to become proficient in both disciplines and 4) serve as examiner-in-charge of at least two comprehensive examinations prior to accreditation. OTS also recognizes that there are very complex and highly technical issues that arise in connection with our comprehensive examination approach. For this reason, OTS continues to maintain compliance, lending, capital markets, trust, and information technology specialists to assist examiners in addressing these matters.

Interest Rate and Credit Risks

As community-based lenders, thrifts remain focused on residential mortgage lending, with 55 percent of assets invested in 1-4 family mortgage loans as of September 30, 2006. Direct loans to consumers, including single-family mortgages, made up 60 percent of thrift assets. Given this concentration, thrift asset quality is dependent on stable real estate values and consumers' continued employment and ability to service their debt.

The thrift industry's current sound financial condition permits it to address potential credit quality problems from a position of strength. Due to the resilience of the housing market, single-family residential loan delinquencies and charge-offs have remained at low levels.

OTS closely monitors interest rate risk due to the thrift industry's natural concentration in longer-term mortgage loans, which are generally funded with shorter-term deposits and borrowings. OTS maintains an interest rate risk sensitivity model that stress-tests savings association portfolios to evaluate potential exposure to changing interest rates. OTS remains cautious of the potential impact of a rapid increase in market interest rates and will remain vigilant in monitoring savings associations for adverse trends. On November 6, 2006, OTS announced that it is enhancing its state

of the art Net Portfolio Value (NPV) Model. The Enhanced NPV Model will expand OTS's off-site interest rate risk monitoring capability and improve the efficiency and effectiveness of on-site examinations. It will also improve the agency's unique ability to provide OTS regulated institutions with quarterly estimates of their interest rate risk exposures.

Alternative or nontraditional mortgage lending products present a unique hybrid of credit and interest rate risks. Credit risk in mortgage lending, typically managed by sound underwriting criteria, is more complex with nontraditional lending products. Aggressive pricing and variable underwriting standards may heighten risks. On September 29, 2006, the federal financial regulatory agencies issued final guidance to address the risks posed by these types of loans, recommending that management recognize these products require strong risk management standards, capital levels commensurate with the risk, and a loan loss allowance reflective of the portfolio collectibility. OTS expects its institutions to approach innovation in the mortgage market with caution and due diligence.

OTS sponsored a National Housing Forum on December 11, 2006. The forum provided an opportunity for industry, government, and community leaders to discuss the national outlook for housing, including the challenges of lending in today's housing market and key consumer protection issues. Speakers included the Secretary of the Treasury, the Chairman of the House Financial Services Committee, the Ranking Member of the House Financial Services Committee, and the Director of OTS.

Compliance Risks

An OTS-regulated institution is required to have an effective compliance management program that is commensurate with its size, complexity, and risk profile. OTS examiners assess whether an institution is ensuring the privacy and security of consumer financial information, guarding against money laundering and terrorist financing, and ensuring fair and equal access to credit for all Americans.

OTS examines for Bank Secrecy (BSA), the USA PATRIOT Act, and other Anti-money Laundering (AML) compliance. Between January 2005 and September 2006, OTS conducted 1,272 BSA examinations and cited over 262 institutions for violations. Most violations were remedied during the examination process and resulted in no further action. The others resulted in OTS initiating 40 formal and informal enforcement actions.

The Federal Financial Institutions Examination Council (FFIEC) released the revised BSA/AML Examination Manual on July 28, 2006. The revised manual reflects the ongoing commitment of the federal banking agencies and the Financial Crimes Enforcement Network (FinCEN) to provide current and consistent guidance on risk-based policies, procedures, and processes for banking organizations to comply with the BSA and safeguard operations from money laundering and terrorist financing. The manual was updated to further clarify supervisory expectations and incorporate regulatory changes since the manual's 2005 release.

OTS hosted a teleconference on July 31, 2006, that provided informative briefings by senior OTS staff on BSA/AML compliance issues, including best practices, avoiding common violations, and the consequences of noncompliance. There were over 1,400 registrants for the event. The

teleconference provided a valuable opportunity for compliance officers, risk managers, auditors, attorneys, and senior bank and thrift managers to interact directly with OTS experts.

Data security is reviewed at thrifts and third party technology service providers. The Gramm-Leach-Bliley Act requires that all financial institutions establish a program to protect their customer's personal information. OTS, with the other financial banking agencies, issued guidance regarding data security, security breach notification requirements, and electronic authentication. A major focus of OTS's compliance program is to ensure that its institutions keep credit information confidential, fight identity theft, and ensure the accuracy of consumers' credit reports.

Compliance reviews help to ensure fair and equal access to credit for all Americans. Thrifts provide services that encourage home ownership and affordable housing and contribute to economic growth. Thrifts hold over \$1 trillion in housing-related loans and securities. On November 24, 2006, OTS published a Notice of Proposed Rulemaking (NPR) to revise its Community Reinvestment Act (CRA) rule to align with the rules adopted by the other federal banking agencies. The alignment would best serve the interests of insured depository institutions and their communities by providing for consistency in regulation and compliance. The vast majority of OTS institutions are in compliance with the Community Reinvestment Act.

Emergency and Disaster Preparedness

OTS is actively involved in initiatives to address emergency and disaster preparedness. The 2005 hurricane devastation in the Gulf Coast states demonstrates how quickly external factors can reprioritize the support that OTS and the thrift industry must provide to preserve the integrity of financial systems and promote a prosperous economy. The needs and issues resulting from the 2005 hurricanes are unprecedented and will take a long time to resolve. To assist affected savings associations and their customers, OTS provides a toll-free hotline number on its internet site for hurricane-related questions and information from government sponsored enterprises and trade groups, community service groups, and information from State agencies.

During June 2006, the FFIEC member agencies and the Conference of State Bank Supervisors jointly issued "Lessons Learned From Hurricane Katrina: Preparing Your Institution for a Catastrophic Event." The document shares experiences and lessons learned by financial institutions affected by Hurricane Katrina and provides institutions with helpful insights for planning and improving disaster recovery and business continuity plans.

For the past 20 years, OTS, in conjunction with the other FFIEC agencies, has issued guidance to the industry with regard to Disaster Recovery and Business Continuity Planning. During examinations, OTS reviews each institution's plans for continuity of operations and emergency preparedness. OTS participates on the Financial and Banking Information Infrastructure Committee to improve the reliability and security of the financial industry's infrastructure. In March 2006, OTS, along with the other FFIEC agencies, issued an Interagency Advisory on Influenza Pandemic Preparedness to alert institutions to the unique challenges a pandemic event could pose and to update their business continuity plans appropriately.

Global Financial Services

OTS's Complex and International Organization program oversees OTS's global services. The European Union (EU) seeks to ensure that financial conglomerates domiciled outside EU member countries are subject to an equivalent level of supervision by foreign supervisors and to enhance coordination among relevant supervisors. OTS is the supervisor for U.S. thrift holding companies, including a number of financial conglomerates active in the EU. OTS was the first regulatory authority to be designated a consolidated coordinating regulator of a holding company with operations in the EU. The EU designation was received in December 2004 for OTS's oversight of GE Capital Services and in September 2006 for Ameriprise. The equivalency designation process is currently underway for the American International Group, Inc. (AIG). The supervision and examination of GE, AIG, and Ameriprise are managed by a group solely dedicated to that task in Supervision.

OTS executed supervisory information sharing agreements with Australia, Canada, France, Germany, the United Kingdom, the Netherlands and Poland. OTS is also a signatory to an existing framework agreement for sharing supervisory information between the EU and U.S. Federal banking agencies. OTS is discussing supervisory information sharing agreements with banking and insurance authorities in China, Mexico, Brazil, and France.

The federal banking agencies are continuing efforts to implement the international Basel II risk-based capital framework. They collaborated on the Basel IA and Basel II proposed capital rules and are evaluating issues to ensure that the new framework results in a safe and sound capital allocation and fair competition among all financial institutions. OTS is supportive of the Basel IA efforts to increase risk sensitivity in the existing Basel I capital rules and to mitigate competitive inequities that may arise with the implementation of Basel II. OTS believes that Basel II warrants close scrutiny and refinement as the process continues. OTS is a leader among the four Federal banking agencies in developing capital modifications to Basel I for the considerable majority of financial institutions that will not adopt Basel II.

Regulatory Burden Reduction

Under the Economic Growth and Regulatory Paperwork Reduction Act, enacted by Congress in 1996, federal banking agencies are required to review all of their regulations at least once every 10 years. The agencies must complete the first review under this law by 2006. In 2003, the agencies began a joint effort to categorize the regulations, publish the categories for comment, report to Congress on any significant issues raised by the comments, and eliminate unnecessary regulations. The review was completed in 2006.

OTS and the other banking agencies published notices categorizing and identifying over 125 regulations for comment and received more than 1,000 comment letters with suggestions for change. Banker and consumer group outreach sessions were held around the country and the OTS Director provided Congressional testimony. Along with the other federal banking agencies, OTS simplified application and reporting requirements, streamlined examination processes, and made changes to its regulations and internal procedures to reduce burden. Every new regulation, process, or procedure now includes a discussion among the Federal Financial Institutions Examination Council (FFIEC) principals about burden and how to accomplish regulatory objectives while minimizing regulatory burden.

The federal banking agencies identified burdens that would require legislative changes to the underlying statutes before changes could be made to the regulations. These changes were presented to Congress as a list of consensus items that the national bank and thrift industries support. Congress passed the “Financial Services Regulatory Relief Act of 2006” on September 30, 2006, and President Bush signed it into law on October 13. This law provides regulatory burden relief for the financial services, banking, and thrift industries. The law allows regulators to adjust exam cycles of healthy institutions for greater efficiency, modernizes record keeping requirements for regulators, and requires the federal banking agencies to propose within six months a simple, uniform privacy notice to comply with the Gramm-Leach-Bliley Act of 1999.

Promotion of Thrift Charter

During 2006 strategic planning meetings, OTS management decided to actively promote the features of the thrift charter. The charter provides advantages in the delivery of financial services and continues to flourish as institutions change and adapt their business strategies and focus. OTS has a unique supervisory role in that it monitors and regulates all aspects of an institution’s operations and holding company affiliate activities. OTS regularly attends financial services industry conferences and has developed a booth that highlights aspects of its oversight program and details aspects of the thrift charter that set it apart from other charter options.

Staffing and Succession Planning

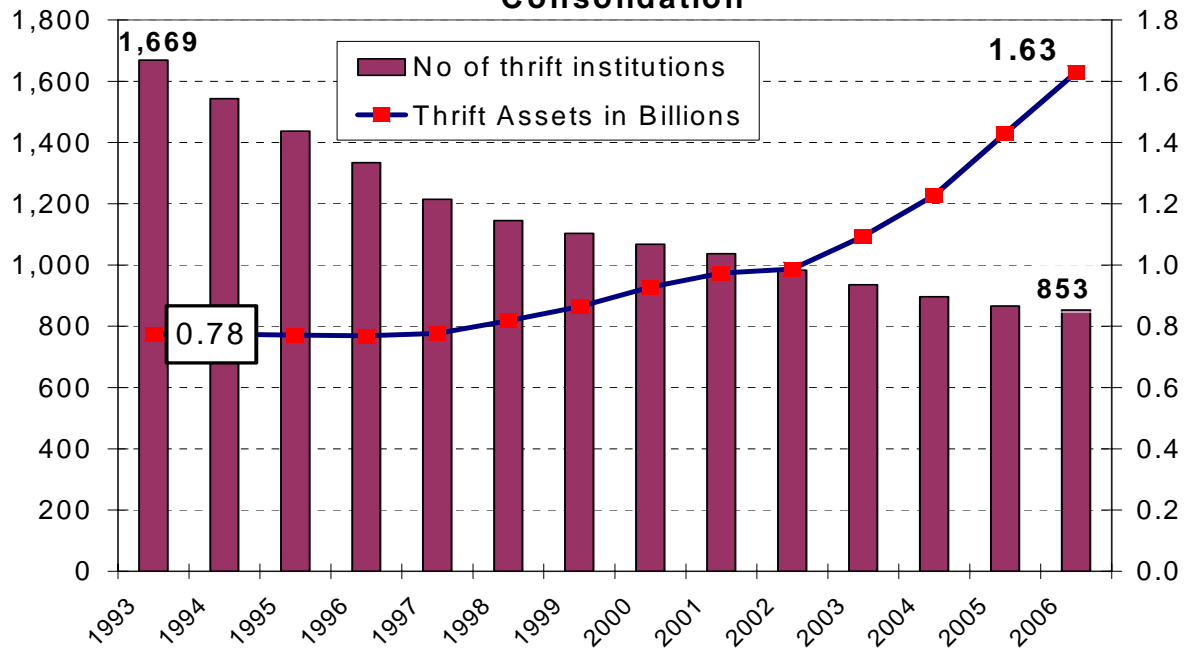
Fifty-five percent of OTS’s current staff will reach retirement eligibility by 2010 year-end. OTS is actively addressing succession planning and the corresponding training needs. Over 80 new examiners were hired in 2006.

1C – Industry Outlook

Due to favorable economic conditions, a stable industry, and the regulatory oversight that OTS provides, the thrift industry is operating in a safe and sound manner and performing extremely well. Net income for the industry was \$4.29 billion during the quarter ending September 30 2006, the second highest on record, just below the record \$4.32 billion earned in the fourth quarter of 2005. In addition, thrift asset quality remains strong and the overall level of credit quality in the industry remains good. The number of problem thrifts decreased from 6 to 5 from September 2005 to September 2006. Assets of problem thrifts decreased from \$1.9 billion to \$180 million during this same time period. Problem thrifts are defined as those with a composite examination rating of 4 or 5.

Financial services consolidation has reduced the overall number of savings institutions, but industry asset growth remains strong. OTS expects this trend to continue. While industry consolidation can create pressure on assessment revenue, thrift asset growth and new charter interest has mitigated this affect. OTS has worked closely with the industry to maintain the profitability, integrity, and viability of the thrift charter, as the industry continues to adapt to the evolving nature of the financial services business and the demands of its customers.

Thrift Assets Continue to Grow Despite Industry Consolidation



Section 2 – Budget Adjustments and Appropriations Language

2.2 – Operating Levels Table

Dollars in Thousands

	FY 2006 Obligated	FY 2007 Estimated	FY 2008 Estimated
FTE	918	1,046	1,046
Object Classification:			
11.1 Full-Time Permanent Positions.....	\$105,997	\$115,224	\$118,105
11.1 Other than Full-Time Permanent Positions.....	1,001	2,217	2,272
11.5 Other Personnel Compensation.....	0	0	0
11.8 Special Personal Services Payments.....	0	0	0
11.9 Personnel Compensation (Total).....	\$106,998	\$117,441	\$120,377
12.0 Personnel Benefits.....	55,799	67,085	68,762
13.0 Benefits to Former Personnel.....	217	300	308
21.0 Travel.....	12,925	13,984	14,334
22.0 Transportation of Things.....	213	241	247
23.1 Rental Payments to GSA.....	0	0	0
23.2 Rent Payments to Others.....	3,605	3,944	4,043
23.3 Communications, Utilities, & Misc.....	3,133	3,582	3,672
24.0 Printing and Reproduction.....	241	216	221
25.1 Advisory & Assistance Services.....	1,081	2,161	2,215
25.2 Other Services.....	3,303	5,623	5,764
25.3 Purchase of Goods/Serv. from Govt. Accts.....	3,229	3,923	4,021
25.4 Operation & Maintenance of Facilities.....	3,251	5,220	5,351
25.5 Research & Development Contracts.....	0	0	0
25.6 Medical Care.....	0	0	0
25.7 Operation & Maintenance of Equipment.....	134	328	336
25.8 Subsistence & Support of Persons.....	0	0	0
26.0 Supplies and Materials.....	1,214	1,669	1,711
31.0 Equipment.....	2,767	5,544	5,683
32.0 Lands and Structures.....	1,343	1,239	1,270
33.0 Investments & Loans.....	0	0	0
41.0 Grants, Subsidies.....	0	0	0
42.0 Insurance Claims & Indemn.....	44	0	0
43.0 Interest and Dividends.....	0	0	0
44.0 Refunds.....	0	0	0
Total Budget Authority.....	\$199,497	\$232,500	\$238,313
Budget Activities:			
Supervision of the thrift industry	\$199,497	\$232,500	\$238,313
Total Budget Authority.....	\$199,497	\$232,500	\$238,313

2B – Appropriations Language

OTS receives no appropriated funds from Congress.

2C – Legislative Proposals

OTS currently has no legislative proposals.

Section 3 – Budget and Performance Plan

3.1 – Resource Detail Table

Dollars in Thousands

Description	FY 2006		FY 2007		FY 2008		% Change	
	Obligated		Estimated		Estimated		FY 2007	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Revenue:								
Supervision								
Assessments		212,290		218,100		223,553		2.50%
Rental Income		4,818		5,070		5,197		2.50%
Interest		8,841		8,500		8,713		2.50%
Fees & Other		10,599		7,330		7,513		2.50%
Total Revenue		\$236,548		\$239,000		\$244,976		2.50%
Expenses:								
Supervision								
Compensation & Benefits		\$163,014		\$184,825		\$189,446		2.50%
Travel & Transportation		13,138		14,225		14,581		2.50%
Facilities		10,848		14,310		14,668		2.50%
Other Services & Supplies		12,497		19,140		19,619		2.50%
Total Expenses	918	\$199,497	1,046	\$232,500	1,046	\$238,313	0.00%	2.50%
Net Results		\$37,051		\$6,500		\$6,663		2.50%

3A – Supervision of the Thrift Industry (\$232,500,000): OTS’s budget supports its supervision program. OTS receives no appropriated funds from Congress; the income of the bureau is derived principally from assessments on savings associations and savings and loan holding companies. OTS’s four strategic goals guide the annual budget activity.

Strategic Goal 1: A safe and sound thrift industry.

Through the examination process, OTS assesses the financial condition and risk profile of savings associations, including their ownership structure, and identifies and addresses unsafe and unsound practices and violations of law and regulation. Through the off-site monitoring process, OTS regularly monitors the financial performance of individual savings associations and the industry. Such monitoring enables early identification of emerging trends or problems.

Strategic Goal 2: A flexible legal and regulatory framework that enables the thrift industry to provide a full competitive array of financial services.

OTS strives to reduce the regulatory burden on savings associations while maintaining effective supervision. To achieve this goal, OTS is improving the application process, limiting assessment rate increases and reviewing statutes and regulations of other governmental entities that may be burdensome. OTS reduced the amount of on-site examination time, redesigned regulations to make them easier to understand, and eliminated unnecessary restrictions. OTS tailors examinations to the risk profile of the individual institutions. This ensures that the examination process is responsive and enables the thrift industry to provide competitive financial services.

OTS strives to manage operations to ensure that assessment rate increases do not exceed the inflation rate. Without compromising responsibilities, the assessment rate increases have not exceeded the inflation rate for the past four years.

Strategic Goal 3: Fair access to financial services and fair treatment of thrift customers.

OTS's Community Affairs Program supports the thrift industry's efforts to meet the convenience and needs of the communities they are chartered to serve; fulfill their CRA obligations; and provide safe and sound loans, investments and financial services for low and moderate income individuals, communities and other areas of greatest need. OTS's Community Affairs staff works with savings associations, community-based organizations, government officials and others to promote partnerships and other initiatives with savings associations at the local level to address and respond to community and economic development needs. In addition, OTS promotes industry adoption of comprehensive compliance management programs and encourages associations to strategically develop the diverse opportunities presented by the communities they are chartered to serve.

Strategic Goal 4: A professional and motivated workforce that provides exceptional service to its customers and supports achievement of OTS business goals.

OTS strives to maintain a workforce that is professional and well trained to regulate the thrift industry and to deal with the public in a professional, informed, and responsive manner. OTS will continue to cross-train its examiners to fully accredit them in both the safety and soundness and compliance disciplines. OTS provides the public with statistical reports, securities filings of OTS registrants, chartering records and other public information. OTS assists savings association customers with inquiries and complaints concerning savings associations.

In line with the President's Management Agenda, OTS is committed to the effective, efficient, and economic management of its resources. OTS analyzes new enterprise initiatives for best value.

3.2.1 – Supervision of the Thrift Industry Budget and Performance Plan

Supervision of the Thrift Industry Budget Activity		Includes Strategic Objectives E1B and F3C				
Resource Level	FY 2004 Obligated	FY 2005 Obligated	FY 2006 Obligated	FY 2007 Estimated	FY 2008 Estimated	
Financial Resources						
Other Resources	178,713	187,434	199,497	232,500	238,313	
Total Operating Level	\$178,713	\$187,434	\$199,497	\$232,500	\$238,313	
Human Resources						
Other FTE	886	885	918	1,046	1,046	
Total FTE (reimbursable)	886	885	918	1,046	1,046	

Supervision of the Thrift Industry Budget Activity		Includes Strategic Objectives E1B and F3C				
Measure		FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Difference between the inflation rate and the OTS assessment rate increase (%) (E)	Target	0%	0%	0%	0%	0%
	Actual	0%	0%	0%		
	Met	Yes	Yes	Yes		
Percent of safety and soundness exams started as scheduled (%) (Ot)	Target	90%	90%	90%	90%	90%
	Actual	94%	93%	94%		
	Met	Yes	Yes	Yes		
Percent of thrifts that are well capitalized (%) (Oe)	Target	95%	95%	95%	95%	95%
	Actual	99.4%	99.5%	99.9%		
	Met	Yes	Yes	Yes		
Percent of thrifts with compliance examination ratings of 1 or 2 (%) (Oe)	Target	90%	90%	90%	90%	90%
	Actual	94%	94%	93%		
	Met	Yes	Yes	Yes		
Percent of thrifts with composite CAMELS ratings of 1 or 2 (%) (Oe)	Target	90%	90%	90%	90%	90%
	Actual	93%	94%	93%		
	Met	Yes	Yes	Yes		
Total OTS costs relative to every \$100,000 in savings association assets regulated (\$) (E)	Target			Baseline	\$14.33	\$14.33
	Actual			\$13.46		
	Met			Yes		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction

As highlighted in the charts, OTS met all of its performance measures in 2006. Following is a brief description of each performance measure:

Percent of safety and soundness exams started as scheduled

OTS examines savings associations every 12-18 months for safety and soundness, compliance and consumer protection laws. OTS performs safety and soundness examinations of its regulated savings associations consistent with the requirements in the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) as amended by the Riegle Community Development and Regulatory Improvement Act of 1994. When safety and soundness or compliance issues are identified during its risk-focused examinations, OTS acts promptly to ensure association management and directors institute corrective actions to address supervisory concerns. OTS staff

often meets with the savings association's board of directors after delivery of the Report of Examination to discuss findings and recommendations.

Total OTS Costs Relative to Every \$100,000 in Savings Association Assets Regulated

Beginning in FY 2006, OTS included a performance measure that reflects the efficiency of its operations while meeting the increasing supervisory demands of a growing and more complex thrift industry. This measure supports OTS's ongoing efforts to efficiently use agency resources. The efficiency measure is impacted by the relative size of the savings associations regulated. Approximately 60 percent of all savings associations have total assets of less than \$250 million and are generally community-based organizations that provide retail financial services in their local markets. The measure does not include over \$7 trillion in assets of holding company enterprises regulated by OTS.

Percent of thrifts with composite CAMELS ratings of 1 or 2.

On December 9, 1996, the Federal Financial Institutions Examination Council (FFIEC) adopted the CAMELS rating system as the internal rating system to be used by the federal and state regulators for assessing the safety and soundness of financial institutions on a uniform basis. The CAMELS rating system puts increased emphasis on the quality of risk management practices. "CAMELS" stands for Capital adequacy, Asset quality, Management, Earnings, Liquidity and Sensitivity to market risk. OTS assigns a composite CAMELS rating to savings associations at each examination. OTS adjusts the level of supervisory resources devoted to an association based on the composite rating. The CAMELS rating is based upon a scale of 1 through 5 in increasing order of supervisory concern.

Percent of thrifts with compliance examination ratings of 1 or 2.

A uniform, interagency compliance rating system was first approved by the FFIEC in 1980. The FFIEC rating system was designed to reflect, in a comprehensive and uniform fashion, the nature and extent of a savings association's compliance with consumer protection statutes, regulations and requirements. The Compliance Rating System is based upon a scale of 1 through 5 in increasing order of supervisory concern.

OTS began to combine safety and soundness and compliance examinations in 2002 to attain exam efficiencies and to improve risk assessment. Using comprehensive exam procedures, compliance with consumer protection laws is reviewed at more frequent intervals, which has improved the quality of the examination process.

Percent of thrifts that are well capitalized.

Capital absorbs losses, promotes public confidence and provides protection to depositors and the FDIC insurance fund. It provides a financial cushion that can allow a savings association to continue operating during periods of loss or other adverse conditions. The Federal Deposit Insurance Act established a system of prompt corrective action (PCA) that classifies insured depository institutions into five categories (well-capitalized; adequately capitalized; undercapitalized, significantly undercapitalized; and critically undercapitalized) based on their

relative capital levels. The purpose of PCA is to resolve the problems of insured depository institutions at the least possible long-term cost to the deposit insurance fund.

Difference between the inflation rate and the OTS assessment rate increase.

Without compromising responsibilities and the risk-based examination approach, OTS strives to efficiently manage its operations and budget to ensure that assessment rate increases do not exceed the inflation rate. However, if OTS believes that events require more personnel or other expenditures, OTS may increase assessments to raise the required resources. Annually, OTS analyzes its operating costs and compares them to the assessments it charges savings associations and holding companies in order to achieve a structure that keeps assessment rates as low as possible while providing OTS with the resources necessary for effective supervision.

For detailed information about each performance measure, including definition, verification and validation, please go to: <http://www.treasury.gov/offices/management/budget/budget-documents/cj/performance>

Section 4 – Supporting Materials

4.1 – Human Resources Table

Changes in Full Time Equivalent

	FY 2006	FY 2007	FY 2008
Base: Year-end Actual from Prior Year	885	918	1,046
Increases:			
Reason #1	Continued recruitment priority in the examiner ranks for succession planning as well as to address increasing holding company needs.		
Subtotal, Increases	33	128	0
Decreases:			
Subtotal, Decreases	0	0	0
Year-end Actual/Estimated FTEs	918	1,046	1,046
Net Change from prior year SOY to budget year EOY	33	128	0

4A – Human Capital Strategy Description

Human capital represents OTS's primary resource to meet its strategic objectives. Sustaining and nurturing human capital resources requires a blend of competitive compensation, strategic and innovative training, and a supportive work environment.

OTS developed its Human Capital Strategic Plan in response to the President's Management Agenda. The Plan follows the Department of the Treasury's Human Capital Strategic Plan for Fiscal Years 2004-2008 and incorporates strategies and practices to ensure that OTS has sufficient staff with the right skills to accomplish its mission presently and in the future. The Plan consists of four main strategic goals: Organizational Effectiveness, Recruitment and Diversity, Employee Retention and Satisfaction, and Technology Skills.

Fifty-five percent of OTS's current staff will reach retirement eligibility by year-end 2010. OTS is developing a revitalized succession planning program to analyze specific positions and categories of positions, identify internal and external pools of available and projected candidates, and design professional development programs to match these needs. Over 80 new examiners were hired during 2006. OTS's compensation program enables OTS to attract, retain, and reward staff comparable to the other federal banking agencies.

OTS is working to cross train its examination staff to create a work force capable of performing multiple examination types (e.g., safety and soundness examinations and compliance examinations), as well as designing training programs to meet the challenges OTS faces with anticipated retirements as part of its overall succession planning program.

To meet the needs of a thriving thrift industry, OTS seeks qualified experienced and entry level candidates with diverse backgrounds. OTS is developing recruiting materials, attending job fairs including events targeting minority and women's groups, and working to provide both centralized and regional recruitment support to meet its various recruitment needs.

4.2 – Summary of IT Resources Table

Dollars in Millions

Information Technology Investments									
(in \$ Millions)		FY 2005		FY 2006		FY 2007		FY 2008	
Major IT Investments	Budget Activity/Funding Source	Operating Plan	Obligations	Operating Plan	% Change from FY05 Obligations to FY06	Estimated Budget	% Change from FY06 to FY07	Estimated Budget	% Change from FY07 to FY08
Total Major		\$0.0	\$0.0	\$0.0	0.0%	\$0.0	0.0%	-	0.0%
Non-Major IT Investments									
Administrative - Mixed	Supervision	\$1.0	\$0.8	\$0.9	7.8%	\$0.9	2.4%	\$0.9	2.5%
Examinations	Supervision	\$1.8	\$1.7	\$2.2	23.2%	\$2.2	2.4%	\$2.3	2.5%
Thrift Financial Data	Supervision	\$2.8	\$2.5	\$2.8	11.4%	\$2.9	2.4%	\$2.9	2.5%
TFR Validation	Supervision	\$1.6	\$1.5	\$1.8	17.0%	\$1.9	2.4%	\$1.9	2.5%
Industry Structure and Tracking	Supervision	\$1.8	\$1.7	\$2.0	16.2%	\$2.0	2.4%	\$2.1	2.5%
CIO Planning	Supervision	\$1.8	\$1.9	\$2.5	26.9%	\$2.6	2.4%	\$2.7	2.5%
Total Non-Major		\$10.7	\$10.0	\$12.2	18.1%	\$12.5	2.4%	\$12.8	2.5%
Infrastructure Investments									
Treasury Consolidated Infrastructure		\$3.6	\$2.9	\$4.0	27.3%	\$4.1	2.4%	\$4.2	2.5%
Treasury Consolidated Telecommunications		\$1.4	\$1.1	\$1.5	29.3%	\$1.6	2.4%	\$1.6	2.5%
Treasury Consolidated Office Automation		\$2.7	\$2.7	\$3.1	13.7%	\$3.2	2.4%	\$3.3	2.5%
Treasury Consolidated Security		\$0.6	\$0.5	\$0.6	14.9%	\$0.6	2.4%	\$0.7	2.5%
Total - Infrastructure Investments		\$8.2	\$7.2	\$9.2	22.2%	\$9.5	2.4%	\$9.7	2.5%
Enterprise Architecture		\$0.2	\$0.2	\$0.2	7.8%	\$0.2	2.4%	\$0.2	2.5%
Total IT Investments		\$19.1	\$17.3	\$21.6	19.7%	\$22.2	2.4%	\$22.7	2.5%

4B – Information Technology Strategy

The OTS Information Technology Investment Review Board (IRB) provides overall direction and vision for how OTS's information technology should contribute to OTS's goals and objectives. It serves as the forum for senior OTS executives to make decisions regarding IT expenditures and investments.

OTS's Chief Information Officer is responsible for the policy, oversight and improvement of all information systems, information management and data communications used by OTS to carry out its mission; he serves as the Executive Director of the IRB. OTS's Director serves as the IRB Chair.

The IRB meetings are incorporated into the Regional Managers meetings to ensure that all senior staff participates in the discussion of the IT program, its budget, projects, strategies, and priorities. Projects are evaluated annually during the budget cycle and can be terminated or funded for further development.

OTS successfully implemented the Personal Identity Verification (PIV) process in 2006 to comply with the PIV-1 requirements of Homeland Security Presidential Directive 12 (HSPD-12). In FY 2007, OTS will work with Treasury's team to implement a new identify management program and to issue new smartcard badges.

OTS continues to implement encryption and information protection controls across its environment. During 2005, OTS implemented the use of an encrypted folder to store sensitive documents on all client machines. In the fall of 2006, OTS implemented full disk encryption on all regional client machines. During FY 2007, OTS plans to address and conform with new OMB standards for two-factor authentication and the encryption of all mobile media including notebook computers, personal digital assistants, diskettes, compact discs, DVDs, flash memory devices, or other mobile media leaving physical government locations.

OTS is working to develop a security program that adequately addresses the National Institute of Standards and Technology (NIST) requirements while being manageable for a small agency. OTS strengthened its IT Security program during FY 2006 and hired five new security professionals who are dedicated to addressing operational and regulatory security requirements. OTS also separated Operational Security into a distinct team to address day-to-day security concerns and activities. During FY 2007, OTS will strive to improve the Federal Information Security Management Act (FISMA) posture by implementing new processes compliant with the NIST standards and by recertifying its national systems.

OTS has no major IT investments planned for FY 2007.

4.3 – PART Evaluation Table

PART Name: Thrift Supervision

Strategic Goal: Increase the reliability of the U.S. financial system (F3)

Rating: Effective

OMB Major Findings

1. The program purpose is clear.
2. The program developed new goals that are outcome-oriented and program measurements which are clear.
3. The program is efficiently and effectively managed.

OMB Recommendations

1. Federal banking regulatory agencies, including the OTS, the OCC, the NCUA, and the FDIC, work together to align outcome goals and related measures to allow for greater comparison of program performance in the industry.
2. The OTS evaluates the efficiency and effectiveness of a single examination for both Safety and Soundness and Compliance functions.
3. The OTS take steps to examine long-term systemic risks in the industry.

OTS Actions Taken

1. OCC and OTS worked together throughout the strategic and performance planning efforts to ensure that their strategic goals were closely aligned. The banking regulatory agencies share their strategic and performance plans with each other and meet quarterly to discuss strategic and performance planning.
2. Based on feedback received over the past two years, the vast majority of the industry prefers the efficiency and effectiveness of a joint examination. OTS eliminated much of the redundancy of two separate exams. OTS will fulfill its statutory examination responsibilities with less FTEs as a result of this change.
3. During the 2004 strategic planning process, systemic risks were examined and addressed in the Plan.

OTS Actions Planned or Underway

1. OTS will continue to work with the OCC to ensure that strategic goals are closely aligned. OTS will continue to share its strategic and performance plans with the other banking regulatory agencies and meet to discuss strategic and performance planning.
2. OTS will continue to perform a joint examination.
3. OTS will continue to examine and address systemic risks.

For a complete list of PART results visit the following website:

<http://www.whitehouse.gov/omb/expectmore/all.html>