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Executive Summary

Environmental Scan

The thrift industry reported strong results in the second quarter of 2001. Industry earnings set a new quarterly record. Continued housing market strength and low mortgage interest rates fueled earnings and boosted key profitability measures – return on average assets and return on average equity.

Asset growth slowed to a more moderate pace from the higher growth rates of recent quarters. The slowing economy and rising unemployment drove delinquent loan levels slightly higher. But credit quality in the thrift industry remains good – reflecting the industry’s concentration in residential lending and its limited exposure to commercial lending and nonmortgage consumer lending.

Thrift industry earnings rose sharply during the second quarter of 2001 to a record $2.5 billion, up 16 percent from the $2.16 billion earned in the first quarter. Thrift profitability remained strong; the industry earned a return on average assets of 1.05 percent in the second quarter — the third best ever recorded — up from 0.92 percent in the prior quarter. Return on equity rose to 12.95 percent in the second quarter from 11.51 percent in the prior quarter. The high profitability indicators were driven by growth in net interest margin and noninterest income. Thrifts also increased fee income during the quarter.

Mortgage originations reached record levels in the second quarter of 2001, up 48 percent to $109.6 billion; the previous record of $81.5 billion was set during the fourth quarter of 1998. Thrifts’ share of the total 1 – 4 family mortgage origination market (as estimated by the Mortgage Bankers Association of America) rose to 22.9 percent, from 21.2 percent in the first quarter. Total mortgage originations (which include multifamily and nonresidential mortgages) increased to $125.0 billion in the second quarter, from $87.6 billion in the first quarter and $66.6 billion in the second quarter one year ago. Refinancing activity (counting only those mortgages refinanced with the same lender) accounted for 22.2 percent of thrift originations in the second quarter, up sharply from 14.9 percent in the first quarter. Refinancing activity increased due to the decline in longer-term interest rates.

As of June 30, 2001, there were 1,049 OTS-regulated thrifts, down 11 thrifts from the previous quarter. During the second quarter 15 thrifts left OTS supervision, primarily due to acquisitions by banks or other thrifts, and there were four new entrants. Though consolidation continues to reduce the number of thrifts, asset growth is strong. As of June 30, 2001 thrifts held assets of $964.7 billion, the highest level of thrift industry assets since March 1991, when they totaled $980.5 billion.

Troubled assets, which include noncurrent loans and repossessed assets, increased to 0.65 percent of total assets during the second quarter of 2001 from 0.62 percent at the end of the first quarter. Loan loss provisions were stable at 0.27 percent of average assets during the second quarter, and net charge-offs increased one basis point from the prior quarter, to 0.22 percent. Although the overall credit quality among thrift institutions remains high, concerns about consumer and commercial loan quality are on the rise nationwide as the economy slows from its record pace. OTS will continue to closely monitor individual institutions that have larger exposures in consumer and commercial loans. Meanwhile, competitive pressure in the thrift industry, mortgage markets, and the entire financial services industry remains intense.

In recent years, thrift failures have been rare, nevertheless, isolated problems continue to arise. In July 2001, the most seriously troubled thrift that specialized in subprime lending, Superior Bank, FSB, Hinsdale, Illinois failed. As a result, OTS appointed the FDIC as receiver on July 27, 2001. Superior is only the fourth OTS-regulated institution to close during the past five years. While the failure of the $1.8 billion Superior Bank will affect the Savings Association Insurance Fund, it had little impact on the overall results for the $965 billion thrift industry. Superior’s assets amounted to less than a quarter of one percent of all thrift assets.
Current and Future Challenges

1. Safety and Soundness of the Thrift Industry

The Treasury I.G. designated the safety and soundness of the banking system as a major management challenge for the Department of the Treasury. OTS’s mission statement, five year strategic plan, annual performance plan, and first strategic goal all emphasize OTS’s commitment to ensure a safe and sound thrift industry. In addition, OTS works with the other financial system regulators and Congress to develop legislation to effectively modernize financial services. The Gramm-Leach-Bliley Act (GLB Act) which was signed on November 12, 1999, was the culmination of a major effort and was the most significant bank reform regulation to be enacted in over 60 years. Among other things, the GLB Act prevents new affiliations between commercial firms and thrifts; places significant restrictions on the sharing of non-public customer information with unaffiliated third parties; requires public disclosure of certain types of CRA agreements; and mandates the concept of functional regulation, which potentially limits OTS’s ability to examine insurance and securities affiliates of thrifts.

2. Enhancing the Thrift Charter

OTS’s management currently supports a series of legislative proposals which would give thrifts the right to conduct activities and take actions comparable to commercial banks. In particular, OTS supports the following:

- giving thrifts the authority to provide investment advice, engage in third party brokerage arrangements and trust and custodial activities, offer sweep accounts where balances are swept directly into money market mutual funds, and permit transactions in municipal securities on the same basis as commercial banks;
- eliminating the obsolete restriction on thrifts’ ability to make certain community development investments and replace it with the same flexible authority national banks have to make investments that are designed primarily to promote the public welfare, including the welfare of low- and moderate income communities or families (by providing housing, services, or jobs);
- giving thrifts the authority to merge with one or more of their nonthrift subsidiaries or affiliates, equivalent to recently enacted authority for national banks;
- removing the requirement that a service company must be organized under the laws of the state where the home office of the thrift is located.

3. Deposit Insurance Reform

OTS also believes that the current method of paying for bank and thrift supervision should be reviewed. OTS believes effective supervision could be funded in one of the following ways:

- Covering the entire cost of federal and state supervision of all charters from the deposit insurance funds’ earnings;
- Recognizing that more intense supervision of troubled institutions costs substantially more but can protect the insurance funds, raising the question of whether those incremental supervisory costs should be deducted from the increased insurance assessment on troubled institutions.
4. Risk in the Thrift Industry

Growing competition in the financial services market—from non-bank competitors for mortgage loans, consumer loans, and investment products—and the continuing development of secondary markets and securitization of basic thrift products, continue to put pressure on the thrift industry to diversify into less commoditized activities. In addition, changes in technology, and the emergence of the Internet as a vehicle for providing financial services, are changing the competitive landscape and the way thrifts do business.

These pressures have led many individual thrift institutions to expand higher-risk lending activities (subprime credit cards, subprime mortgages, construction lending, real estate development lending, etc.). The aggregate investment in higher-risk assets remains relatively small. However, there is notable growth in both the level of investment and the number of institutions participating in higher-risk lending.

The increasing complexity and interrelation of financial services delivered by thrifts and their affiliated entities, combined with new consumer protections afforded by the Gramm-Leach Bliley Act addressing privacy and consumer interests in connection with insurance sales, exposes thrifts to expanding compliance risks. OTS has incorporated the oversight for the additional compliance risks into the agency’s compliance exam program for 2002.

Given the current economic environment, OTS’s examiners are focusing on thrifts’ credit quality, reserve policies, and capital adequacy. In addition, the loan monitoring, loan collection, and work out procedures of thrifts are being given increased scrutiny, and the activities of thrift holding companies and their potential impact on the subsidiary bank are receiving heightened attention.

5. Improving the Availability of Financial Services

OTS’s second strategic goal is to improve the availability of financial services by encouraging safe and sound lending in the areas of greatest need. Despite the controversy that the Community Reinvestment Act (CRA) has generated over the past several years, its success is clear. CRA has helped encourage insured depository institutions to increase their focus on rebuilding their communities and promoting economic revitalization. OTS’s Community Affairs Program has helped to promote sound community investment by OTS-regulated institutions. In December, 2000, OTS together with the Comptroller of the Currency, Board of Governors of the Federal Reserve System, and Federal Deposit Insurance Corporation, approved the issuance of final regulations implementing the CRA Sunshine Requirements of the Federal Deposit Insurance Act, which were enacted by the Gramm-Leach-Bliley Act. During 2002, OTS’s community affairs staff will concentrate on promoting home ownership, affordable multi-family housing, economic development, and responsible lending in under-valued and emerging markets. OTS’s community affairs staff will also emphasize that community reinvestment is part of a sound business strategy.

6. Combating Predatory Lending Practices

As part of OTS’s consumer compliance oversight and supervisory mission, OTS continues its efforts to combat predatory lending practices. OTS pursues three interrelated approaches to combat this problem: 1) examination for and enforcement of, applicable laws and regulations; 2) encouragement of responsible subprime lending, and 3) education of consumers, institutions, and investors. While OTS has no reason to believe there is any appreciable amount of predatory lending engaged in by the thrift industry, we must remain vigilant in our effort to assure that these practices do not take root among thrift institutions in the future. In November, 2000 OTS and OCC alerted national banks and federal thrifts that the agencies have significant safety and soundness, compliance and consumer protection concerns with banks and thrifts entering into contractual arrangements with vendors to fund “title loans” and “payday loans.” (Both of these types of loans are short term loans with extremely high interest rates and/or fees.) During 2002 OTS will join the other federal banking agencies in reviewing the CRA regulation and in that process will consider how best to apply the Community Reinvestment Act to activities that involve predatory lending practices.
Strategic Context

Background

OTS was established by Congress as a bureau of the Department of the Treasury on August 9, 1989. OTS’s primary statutory authority is the Home Owners’ Loan Act (HOLA). Under HOLA, OTS is responsible for chartering, examining, supervising, and regulating federal savings associations and federal savings banks. HOLA also authorizes OTS to examine, supervise, and regulate state-chartered savings associations belonging to the Savings Association Insurance Fund (SAIF) and provide for the registration, examination, and regulation of savings association affiliates and holding companies. The authority over holding companies is unique among the four federal banking agencies in that OTS is the only federal banking agency that oversees both the depository institutions it charters and most of their holding companies.

OTS is headed by a Director who is appointed by the President, with Senate confirmation, for a 5-year term. OTS’s Director also serves on the boards of the Federal Deposit Insurance Corporation (FDIC) and the Neighborhood Reinvestment Corporation.

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

OTS’s Mission Statement

OTS’s 2001 Performance Plan is based on its 2000 – 2005 Strategic Plan which was published in August 2000. OTS’s Mission Statement is as follows: **To effectively and efficiently supervise thrift institutions to maintain their safety and soundness in a manner that encourages a competitive industry to meet America’s housing, community credit and financial service needs and to provide access to financial services for all Americans.**

OTS Values Statement

**Integrity:** All OTS actions, both internal and external, are conducted with the highest degree of honesty and fairness, fostering confidence in OTS by the public, the thrift industry and our employees as we perform our mission.

**Teamwork:** OTS’s greatest strength is its workforce, which consists of highly qualified individuals who represent America’s diversity. They work in an environment built on trust, respect, teamwork, communication, creativity and empowerment.

**Efficiency:** OTS is committed to excellence and efficiency, and continually seeks new and better ways to accomplish its mission through greater productivity and service. Management provides quality-focused leadership as well as technical excellence to enable OTS to meet its regulatory responsibilities in the most cost-effective and timely manner.

**Partnerships:** OTS works with the other depository institution regulators to achieve consistency in policy and regulation. When developing and executing these policies, we seek to minimize regulatory burden to the extent consistent with effective supervision.

**Responsiveness:** OTS listens to, learns from, and collaborates with the institutions we regulate and the public they serve on how best to address their needs. OTS deals in a proactive, efficient and effective manner with all risks discovered in the industry as a whole as well as individual thrift institutions.
Benefits to the Public Realized by OTS’s Strategic Plan and Annual Performance Plan

Our society places a high value on a safe and accessible financial system, decent and affordable housing, and increased availability of financial services for housing and businesses for all Americans, including those located in distressed areas. The goals and objectives of OTS’s plans bolster these values by emphasizing a safe and sound thrift system that delivers services to meet societal needs. To individuals, thrifts provide a place for their savings, a medium for payments and other financial transactions, and a source of credit for real estate and consumer loans. Increasingly, thrifts also perform these functions for small businesses.

Credit plays a vital role in our economy as it is an engine for economic growth and revitalization. Businesses need credit to expand; consumers need credit to obtain goods and services; families need credit for housing; and communities need credit to fund the development and maintenance of their infrastructure. Mortgage and housing credit, which is essential to fulfilling the national goal of a decent home and a safe living environment for every household, as well as other forms of credit, will continue being provided by thrifts if OTS’s strategic plan and annual performance plans are carried out.

Because a smoothly operating thrift industry is important to the nation’s economy, the centerpieces of OTS’s plans are the goals and objectives guiding the agency toward proactive supervision, improved credit availability, reduced regulatory burden, and good relations.

OTS’s Employees

The ability to attract and retain a highly skilled workforce is vital to OTS’s ability to achieve its mission in today’s rapidly changing financial environment. Successfully competing for and retaining staff with the requisite knowledge and skills is one of the more challenging tasks faced by OTS. Although OTS has developed an experienced and well-trained corps of examiners (safety and soundness examiners have an average of 15 years of experience), the agency faces staff replenishment challenges as more become eligible for retirement, as well as skill enhancement challenges as examiners confront a fast-changing industry. Thus, the agency faces a situation that tests the skill of management to maximize employees’ knowledge, skills and potential.

To respond to these challenges, OTS completed a series of initiatives. Starting in 1998, OTS began to hire entry-level examiners for the first time in approximately eight years in order to supplement the examiner ranks. The five regions have hired approximately 70 entry-level examiners since this initiative began but approximately one-third of them have departed, primarily due to the heavy travel burden associated with the job. OTS revised its examiner accreditation program in 2001 to redefine the knowledge/skill and on-the-job requirements needed by new examiners in order to examine any institution and serve as an examiner-in-charge. OTS also issued new accreditation programs for examiners in safety and soundness, compliance, trust, and information technology functions. Beginning 1998, OTS has offered a telecommuting program for examiners and in the following year, for office staff where job functions permitted it.

In 2000, OTS introduced a professional development pilot program to offer a wide range of individually-tailored development activities that go beyond job-related training and enable employees to succeed in an increasingly complex environment. It also introduced specialty examiner tracks for post-accreditation examiner advancement in areas where OTS requires special expertise. The professional development program was implemented agency-wide in 2001. In 2001, OTS also developed a comprehensive set of materials to assist in recruiting, hiring and developing materials for new examiners. It also produced a set of orientation materials for new examiners to help them acclimate themselves to the OTS work environment.
To Achieve the Aforementioned Benefits, OTS has Developed the Following Performance Goals that Relate to its Strategic Goals

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<th>OTS's Long-Term Strategic Goals</th>
<th>Annual Performance Goals</th>
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<td>1. Through efficient and effective supervision, maintain a safe and sound industry that meets its responsibilities to its customers and communities.</td>
<td>1a - Ensure that 100% of OTS-regulated thrift institutions operate in a safe and sound manner or that OTS has taken appropriate supervisory or enforcement action.</td>
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<td>1b - Ensure that at least 95% of OTS-regulated thrift institutions rate the value of the examination process as “satisfactory” or above.</td>
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<td></td>
<td>1c - Ensure that 100% of OTS-regulated thrift institutions comply with consumer protection, fair lending, community reinvestment, bank secrecy and other public policy laws and regulations or that OTS has taken appropriate supervisory or enforcement action.</td>
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<td></td>
<td>1d - Ensure that 100% of OTS-regulated thrift institutions are at least “adequately capitalized” or are under a Prompt Corrective Action Directive or are recapitalized to at least the “adequately capitalized” level or operating within an approved Capital Plan within 150 days of becoming undercapitalized.</td>
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<td>2. Actively support the thrift industry's efforts to expand the full range of housing, other credit, and financial services to all segments of the community through outreach programs, industry partnerships, and proactive supervision.</td>
<td>2a - Provide educational and technical assistance to industry representatives, the OTS examination staff and other relevant parties on community development issues, needs and opportunities; key players and programs, and investment authority or regulatory barriers.</td>
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<td>2b - Promote and help facilitate partnerships between financial institutions, community organizations and others as a means of improving the availability of and access to credit and financial services.</td>
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<td>3. Utilize in the most complete and efficient way the talents, knowledge and enthusiasm of the agency to keep regulatory operations at the minimum level consistent with effective supervision.</td>
<td>3a - Develop and maintain an OTS workforce capable of providing assistance to thrift institutions in meeting the thrifts’ regulatory responsibilities.</td>
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<td>4. Provide exceptional service to all major groups with which we interact, including the thrift institutions regulated by OTS and members of the public that deal with those thrift institutions, to make government more responsive.</td>
<td>4a - Develop, distribute and monitor adherence to service plans for major agency functions.</td>
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Plan Highlights

Means Used to Accomplish OTS’s Four Strategic Goals

1. Operating Capital and FTEs

Assessments charged to the thrift industry provide 88 percent of OTS’s operating funds. Other sources of operating funds include application fees, interest, rents and subleases, exam fees, and other miscellaneous sources.

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<td>Operating Expenses (in millions)</td>
<td>$143.8</td>
<td>$153.7</td>
<td>$156.9</td>
<td>$121.1</td>
<td>$163,517,000</td>
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<td>Year-end FTE</td>
<td>1,264</td>
<td>1,270</td>
<td>1,247</td>
<td>1,207</td>
<td>1,173</td>
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2. Staff Skills

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

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

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

Convergence within the financial services sector is a reality in the market place. As a result of the new types of applications being filed, OTS’s staff is being presented with new challenges and opportunities; the need to adjust, invent and innovate.
3. Information Technology:

OTS strives to comply with recent management reforms, such as the Clinger-Cohen Act, the Paperwork Reduction Act, and the Government Information Security Reform Act, which require agencies to establish processes for maximizing the value and security of IT investments. In an effort to enhance support for the user community, information technology responsibilities were recently integrated with research functions.

Effective use of information technology enhances OTS’s ability to accomplish its mission and goals. OTS strives to deliver IT systems that best align with the OTS business goals and to implement systems that improve workforce performance. OTS’s CIO has established the following strategies:

- Create a customer service environment with solution-oriented staff.
- Improve communication internally and externally.
- Focus on enterprise-wide solutions and logical extensions of individual applications to maximize return on investment.
- Implement a matrix management, project team approach to application development.
- Identify required skill sets for project team members and provide necessary training, mentoring, and project assignments to develop and strengthen staff skills and improve productivity.
- Integrate new technologies into the agency’s business practices in an efficient and cost-effective manner.
- Develop, document, and implement sound software engineering standards to facilitate the software development process and ensure application/systems quality.

**Government Information Security Reform Act**

The Government Information Security Reform Act (GISRA), signed into law on October 30, 2000, addresses the program management and security of information resources supporting Federal operations and assets. The Act requires annual security program reviews, annual IG evaluations, and annual reports to OMB and Congress. The security components addressed by GISRA require agency Chief Information Officers to develop, implement, and maintain a security program and document it in a plan that assesses risk and provides adequate security.

OTS provided its initial report to Treasury on July 30, 2001. Action plans with milestones to correct any security weaknesses identified in annual program reviews and evaluations are due to OMB by October 31, 2001.

**Section 508 Rehabilitation Act Amendments:** Section 508 requires that electronic and information technology products and services that federal agencies procure comply with standards for being usable by people with a wide range of disabilities. The redesign of the OTS Internet site incorporated the Section 508 standards, and our IT procurements abide by Treasury’s recommended procurement procedures.
Link Between OTS’s Performance Plan and its Budget

OTS is not funded by Congress. The Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989 granted to OTS the authority to raise its operating capital through assessments on the thrift industry. These assessments are based on each institution’s size, financial condition, and the complexity of its operations, with healthy institutions paying less than similar-sized troubled institutions.

OTS Budget Divided by Strategic Goal

- Maintain a safe and sound industry, 85%
- Reduce regulatory burden, 12%
- Expand housing, credit and financial services, 2%
- Provide exceptional service, 1%

External Factors that Could Affect Achievement of OTS’s Four Strategic Goals

OTS’s ability to accomplish its four major goals will be directly affected by the following external factors:

1. U.S. Economic Environment and the Thrift Industry

While the overall financial condition of the thrift industry is strong, the current economic slowdown suggests that rising levels of delinquent loans are a distinct possibility. In terms of credit risk, the industry’s largest exposure is in residential mortgage loans. Fortunately, however, the housing market is very strong in most areas of the country and the delinquencies on single-family residential loans have remained at very low levels. Barring a serious downturn in the economy, which seems unlikely, the overall credit quality of residential mortgage portfolios should remain healthy.
The slowdown in economic activity, however, is bound to have an adverse effect on marginal credits, particularly overextended consumers and commercial borrowers. Thrifts are not immune to weakness in the business sector since 3.0 percent of thrift assets are held in commercial loans. Nor is the industry immune to problems in the consumer sector. In recent years, debt service burdens of consumers have generally grown more rapidly than their incomes, and the rate of consumer savings of disposable income has been disturbingly low.

Given the current economic environment, OTS is placing increased emphasis on credit review in the examination process. OTS examiners are focusing on thrifts’ credit quality, reserve policies, and capital adequacy. The loan monitoring, loan collection, and work out procedures of thrifts are being given increased scrutiny. Particular attention is being given to business-related loans originated during the height of the economic expansion.

2. Financial Modernization

Inter-industry consolidation is occurring in the marketplace. This activity presents both challenges and opportunities for OTS. With respect to effective financial supervision and regulation, consolidation requires OTS to supervise and examine larger institutions doing non-traditional activities over a wider geographic area, and in unusual corporate structures. OTS is aware that consolidation can limit consumer choice, the reach of CRA, and the availability of local civic leadership. By working closely with these institutions, however, OTS often has the opportunity to assist them in bringing more—and different types of—resources to under-served areas.

Intra-industry consolidation is also occurring, although the pace seems to be slowing somewhat. From 1994 through 1997, an annual average of 140 institutions left OTS’s jurisdiction. In 1998 and 1999 the number of OTS-regulated thrifts fell by 70 and 42 respectively. During 2000, the number of OTS-regulated thrifts fell by 35 institutions. During the first 6 months of 2001 the number of thrifts fell by 19 to 1,049. Approximately 50% of the thrift industry’s assets are held by 10 institutions, each with assets in excess of $22 billion. Major charter changes or acquisitions could materially reduce industry assets and the OTS assessment base.
Accomplishing the Annual Performance Goals Associated with OTS’s Strategic Goals

<table>
<thead>
<tr>
<th>Strategic Goal 1: Through efficient and effective supervision, maintain a safe and sound industry that meets its responsibilities to its customers and communities.</th>
<th>Projected FY 2002 Expenditures</th>
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<td>$138,989,450</td>
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Through the examination process, OTS assesses the financial condition and risk profile of thrift institutions and identifies violations of law and regulation and potential financial and economic problems. OTS’s examination process assists in preventing the development or continuation of unsafe operating practices and effects timely resolution of identified problems or weaknesses, including consumer protection, and Community Reinvestment Act (CRA) weaknesses.

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<tr>
<td>Performance Goal 1a: Ensure that 100% of OTS-regulated thrift institutions operate in a safe and sound manner or that OTS has taken appropriate supervisory or enforcement action.</td>
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<td>Performance Measure 1a-1: The percentage of thrift institutions that, after sixty days of having received an unsatisfactory safety and soundness rating, are either subject to a formal or informal enforcement action or have had such action waived.</td>
<td>NA*</td>
<td>86.7%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
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<td>Performance Goal 1b: Ensure that at least 95% of OTS-regulated thrift institutions rate the value of the examination process as “satisfactory” or above.</td>
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<td>Performance Measure 1b-1: The percentage of thrift survey responses that rate the examination process as being “satisfactory” or “better than satisfactory.”</td>
<td>99%</td>
<td>98.4%</td>
<td>98.96%</td>
<td>95%</td>
<td>98.8%</td>
<td>95%</td>
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<td>Performance Goal 1c: Ensure that 100% of OTS-regulated thrift institutions comply with consumer protection, fair lending, community reinvestment, bank secrecy and other public policy laws and regulations or that OTS has taken appropriate supervisory or enforcement action.</td>
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<tr>
<td>Performance Measure 1c-1: The percentage of thrift institutions that, after sixty days of having received an unsatisfactory compliance rating, are either subject to a formal or informal enforcement action or have had such action waived.</td>
<td>NA*</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
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*NA indicates the performance measure was not or will not be used during the specified year.
### Performance Goals and Measures that Support Strategic Goal 1:

| Performance Goal 1d: Ensure that 100% of OTS-regulated thrift institutions are at least “adequately capitalized” or are under a Prompt Corrective Action Directive or are recapitalized to the “adequately capitalized” level or operating within an approved Capital Plan within 150 days of becoming undercapitalized. |
|---|---|---|---|---|---|
| 1998 | 1999 | 2000 | 2001 Target | 1/1 – 9/30 2001 | 2002 Target |
| NA* | 99.9% | 100% | 100% | 100% | 100% |

*NA indicates the performance measure was not or will not be used during the specified year.

### Performance Plan Explanation

**Means to Accomplish the Annual Performance Goals Related to Strategic Goal #1**

- **Processes**

  OTS conducts risk-focused Safety and Soundness, Compliance (including CRA), Information Systems, Holding Company and Trust examinations in accordance with statutory requirements and/or agency policy. OTS employs a seasoned staff of examiners. Examiners undergo continuing training in areas of emerging risks, higher risk consumer and commercial lending, electronic banking, securitizations and consumer protection laws and regulations. OTS is revising policies on the supervision of thrift holding companies as new business strategies are being implemented by insurance companies and other new entrants into the business. Similarly, OTS is revising its approach to trust examinations. We have implemented an automated examination process, and have trained examiners in its use. This is enhancing the efficiency of examiners and reducing regulatory burden, because more analytical and focused examination work is performed off site.

  In addition to on-site examinations, OTS performs off-site financial monitoring of each institution. Staff base their off-site analysis on quarterly Thrift Financial Reports, the Uniform Thrift Performance Report, holding company and SEC reports, and other information, noting adverse trends, financial performance, and changes in business strategies and risk taking. Policy staff in Washington develop new policies, many in coordination with other financial regulatory agencies, and communicate guidance to examiners in easily understood terms and often by electronic means. OTS will continue to monitor closely institution capital levels and apply regulatory solutions to ensure that institutions remain adequately capitalized or to achieve timely resolution of inadequately capitalized institutions.

- **Staff Skills**

  Another aspect of OTS’s regulatory oversight is its focus on dynamic, needs-based employee training. OTS’s new Professional Development Program enables examiners to assess their training and development needs, which in turn, identifies needed areas of training. In addition, regional supervisors assess upcoming and emerging issues at institutions in the region, the strength of regional examiners in the skills required to address these needs, and the training which would
address areas of need. The Professional Development Program, specialty examiner tracks, accreditation programs, and a soon-to-be-piloted management development program, keep employee skills at top levels.

OTS examiners typically receive training several times annually. Training is designed for maximum impact with minimum disruption to the day-to-day operations of the agency. Training is delivered in various forms, including computer-based programs, video-conferencing, outside programs, and by pooling specialized examiner resources so individuals can share their expertise nationally within the agency. OTS’s trust and IT examiners, although regionally based, work across the country, and the agency’s retail and commercial loan specialists are always on call to deal with these specialized risks. In addition, there has been an increased emphasis in rotational assignments within the regional offices and between the regions and the Washington office to broaden work experiences. During 2000, examiners worked cross-regionally for a total of almost 800 days, including 19 details to Washington. These exchanges enhance the skills and perspective of both the sending and recipient offices.

In addition to OTS’s internal training activities, OTS staff work closely with the other FFIEC agencies to identify areas that warrant more extensive and coordinated training initiatives. This past year, the FFIEC piloted the concept of just-in-time training on CD’s to get training on hot issues such as subprime lending and privacy out quickly to a wide audience. OTS also holds staff conferences and teleconferences to promote sharing of ideas and experiences among supervisory staff. OTS is also improving its information systems to simplify and expedite access to internal and publicly available thrift and market information.

⇒ Technological Resources

OTS staff use several systems to help accomplish strategic goal 1 as set forth below:

The net portfolio valuation model for the Interest Rate Risk System calculates measures of interest rate risk and produces reports used by Washington and Regional staff. Individualized reports are mailed to each institution.

The Examination Data System collects and disseminates data pertaining to the examination process (the exam type, rating, and critical tracking dates). It collects information for Safety and Soundness, Compliance, IT, Trust, and Holding Company exams.

The Thrift Information Management System (TIM) integrates several regulatory systems, grouping data entry and reporting functions by subject matter.

The Thrift Examiner Support System (TESS) supports the Report of Examination (ROE) process. Examiners prepare reports of examination using Microsoft Word templates that include numerous exam specific items such as predefined financial data and previous exam ratings. The data elements are extracted from OTS’s database of financial information filed by the regulated institutions. Completed reports of examination are uploaded to a central repository. Authorized OTS employees electronically access the completed reports of examination.

The Regulatory Action Data System tracks enforcement and supervisory actions. This system provides data for the regular public and congressional reporting requirements regarding formal and informal enforcement actions.

The National Financial Monitoring System/UTPR provides standardized reports that are used to monitor and analyze regulated institutions. One key report is the Uniform Thrift Performance Report (UTPR) that is provided in a five-quarter or a three-year format. The Federal Deposit Insurance Corporation (FDIC) receives copies of these reports quarterly.

The Thrift Edit System collects and edits financial data for all OTS-regulated institutions. The General Electronic Transfer System controls the electronic submission of data from thrift institutions. The data is used for monitoring industry trends and for performing financial analysis of individual institutions. Information collected by this system is provided to the Thrift Time Series.
The **Thrift Time Series** contains over fifteen years of financial data for OTS-regulated institutions. The system provides access to Thrift Financial Report (TFR) and Consolidated Maturity Rate (CMR) data in a consistent format including formatted ratios, subtotals, aggregates, and formatted reports.

The **Information Technology** module of the **Industry Structure System** tracks IT service providers, platforms, networks, vendors, and products used by savings associations and their holding companies. The system allows staff to identify, qualify, and quantify technology risk of products and services offered or used by federal savings associations and third-party vendors.

The **Prompt Corrective Action Monitoring Report** provides OTS senior management with updates regarding institutions’ compliance with the Prompt Corrective Action requirements.

The **Customer Service Measurement System** supports OTS’s Customer Service Program. This system is used to collect and report the results of surveys sent to thrift institutions following an examination.

The **Branch Office Survey System** collects, edits, and processes information on the deposits/savings and geographic location of all OTS-regulated institutions and their branch offices. This information is used in deposit market share analysis.

The **Thrift Monitoring System** (TMS) provides supervisory staff in OTS with the capability of viewing selected examination and financial information on institutions throughout the country. The system is a tool for detecting existing problems and potential risks in the thrift industry. TMS provides standardized monitoring reports to the agency.

The **Regulatory Profile System** provides a brief narrative of information on high profile institutions and is updated quarterly by regional employees. The narratives consist of four sections: (1) Operating Profile, (2) Enforcement Action, (3) Identified Risks and (4) Supervisory Strategy.

The **Consumer Complaint System** tracks consumer complaint subject matter trends and resolution outcomes. This system is an integral part of the compliance oversight program and examination scooping.

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

Ensure that the supervisory corrective strategies for 100% of the high risk institutions (as determined by monitoring in the regions and DC) are presented at least semi-annually to the OTS Director, Deputy Director and other senior staff in Washington.

Continue working with our colleagues (the FFIEC, Fed, OCC, NCUA and FDIC) on numerous policy initiatives, such as concentrations, complex investment securities, online banking, capital issues, subprime lending, consumer privacy and CRA issues.

Continue modernizing our regulatory systems including the Net Present Value (NPV) model and Electronic Continuing Exam Folder (ECEF).

Creatively and effectively deal with problem thrift institutions.

Increase communication with the industry.
Help finalize a proposal that would more closely align the risk-based capital treatment of recourse obligations and direct credit substitutes and vary the capital requirements for positions in securitized transactions according to their relative risk.

Distribute electronic filing software for the industry to facilitate and modernize the filing of OTS regulatory reports including the Thrift Financial Report (TFR), Consolidated Maturity and Rate (CMR), Branch Office Survey (BOS), and Cost of Funds (COF).

Continue using the full range of enforcement tools, including Department of Justice referrals, to deter or punish wrongdoing in the thrift industry.

OTS’s Director and senior staff will continue to make formal and informal presentations on various subjects related to the thrift industry and OTS.

Work to enhance the value of the thrift charter.

Train examiners and direct examination support staff to deal with emerging issues, new financial instruments, electronic banking, risk management and trust activities.

Continue to hire, on a select basis, a diverse group of highly qualified, entry-level examiners and provide them with the best possible basic training and specialty training, including up-to-date risk-based guidance.

Improve supervision of nontraditional institutions, including diversified unitary holding companies.

Improve the examination and supervision process to provide more oversight of the risks associated with the industry’s use of securitizations, complex financial instruments (including equity instruments), and off-balance-sheet transactions.

Review the examination follow-up and corrective action process for greater efficiency and effectiveness, as well as more consistency among regions.

Expedite the use of formal enforcement actions by issuing a revised Enforcement Policy Statement.
⇒ Follow up with integration activities for all relevant staff.

Enhance the agency’s capacity to monitor, identify, and access risk factors affecting the thrift industry.
⇒ Improve existing systems for monitoring risk trends on a frequent and systematic basis.
⇒ Improve systems for delivering monitoring results on a timely basis to the appropriate staff in a manner they feel would be useful.

Improve the consistency and quality of examinations by using the full knowledge base of the agency to develop an appropriate supervisory approach for each institution.
⇒ Use enhanced monitoring system and exam results to take anticipatory steps to avoid potential problems.
⇒ Encourage and support full implementation of a flexible, risk-focused examination process.
⇒ Monitor exam feedback and make adjustments to procedures.
⇒ Provide additional training as needed.
OTS will strive to minimize the occurrence and resolve inadequately capitalized institutions through:
⇒ intensive intervention,
⇒ development of regulatory solutions to prevent financial deterioration that could lead to inadequate capitalization.

Strengthen the regulatory and administrative policy development process.
⇒ In order to capture emerging issues and involve all staff with relevant knowledge, develop a process to create inter-disciplinary teams of experienced examiners, field managers, and knowledgeable Washington staff to assist senior OTS management in internal development of agency policy and direction.
⇒ Define a process to identify “best practices” and emerging risks as topics for “white papers” to be written by internal and, possibly, external subject experts.
⇒ Joint team of Supervision and Office of Research and Information Systems staff will develop a consolidated Holding Company Data Base that will include financial data on holding company structures to facilitate OTS examination and off-site monitoring of these entities. This will help implement an internal OTS task force recommendation to strengthen OTS’s supervisory ability to respond to new risks and challenges posed by thrift holding companies engaging in non-banking activities, including commercial activities. Consolidated structural data and Holding Company consolidated financial data will be compiled in 2001.
⇒ Extended use of national mortgage delinquency data, including subprime mortgage data. OTS will identify emerging trends in credit quality; reports will periodically be published on OTS’s internet site on mortgage market trends.

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

The OTS works closely with the other four federal financial regulatory agencies (Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, National Credit Union Administration, and Comptroller of the Currency) and state bank regulators, both through the Federal Financial Institutions Examination Council (FFIEC) and individually, where appropriate, to identify emerging issues in the financial institutions industry and to coordinate supervisory activities. This activity occurs both in Washington and at the regional level, directly with other regulators and through the Conference of State Bank Supervisors (CSBS). Topics of mutual interest include emerging risks, adverse trends, and other supervisory matters. This is a mutually beneficial relationship that keeps all parties apprised of potential problems, emerging issues, and possible overlaps of regulatory authority that may pose potential regulatory burdens or gaps in regulatory coverage.

OTS is also a member of the Results Act Banking Regulatory Working Group which was formed in October 1997 to address GPRA requirements. The members of the group share “best practices” and common budget and planning issues.

Key External Factors Potentially Affecting Achievement of Strategic Goal #1

Industry consolidation - Continued industry consolidation will require unique examination mechanisms and modified supervisory techniques to assess and monitor the increasingly complex structure of thrifts. More cross-regional OTS cooperation and increased cooperation with the other federal regulatory agencies and state authorities will also be needed to adequately examine the largest thrifts.

Single event risk - The current economic environment has had a positive effect on the thrift industry. Institution failures have been nominal over the past several years. However, a significant single event such as a stock market crash or international financial crisis could significantly impact the health of the thrift industry, increase OTS’s examiner workload, and alter current staffing projections for both examiners and legal and investigative personnel.
Competitive disadvantages in the labor market - As with many other public and private sector employers, OTS has difficulty keeping pace with salary escalation in the relevant labor markets for the knowledge and skill sets needed by OTS. Nevertheless, OTS offers a highly competitive benefits package, including a series of worker-friendly features to attract and retain critical staff. OTS recently introduced a comprehensive professional development program to enhance its overall competitiveness by enriching the professional experiences of its staff.

Emerging technology - Emerging technology has introduced new ways for thrifts to offer traditional products and services. Future advances that could significantly affect the OTS’s examination function include the expansion and use of electronic banking initiatives, in particular the use of Internet banking, and the development of new and complex non-deposit investment products.
Strategic Goal 2: Actively support the thrift industry’s efforts to expand the full range of housing, other credit, and financial services to all segments of the community through outreach programs, industry partnerships, and proactive supervision.

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<tr>
<td>Performance Goal 2a: Provide educational and technical assistance to industry representatives, the OTS examination staff and other relevant parties on community development issues, needs and opportunities; key players and programs; and investment authority or regulatory barriers.</td>
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<tr>
<td>Performance Measure 2a-1: The number of institutions that OTS provides one-on-one technical or strategic planning assistance to in their efforts to meet their CRA obligations or expand the full range of housing, other credit and financial services to all segments of their communities. The goal is the 2002 baseline.</td>
<td>NA*</td>
<td>NA*</td>
<td>NA*</td>
<td>NA*</td>
<td>NA*</td>
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<td>Performance Goal 2b: Promote and help facilitate partnerships between financial institutions, community organizations and others as a means of improving the availability of and access to credit and financial services.</td>
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<td>Performance Measure 2b-1: The number of new partnerships formed, activities/programs commenced or investments made as a result of OTS’s outreach, training, or partnership building activities. The goal is the 1999 baseline.</td>
<td>NA*</td>
<td>26</td>
<td>28</td>
<td>26</td>
<td>27</td>
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*NA indicates the performance measure was not or will not be used during the specified year.

Many OTS offices have a role to play in accomplishing this strategic goal. As demonstrated by the 2001 Thrift Industry Leadership Conference: Charting the Course of Competitive Community Banking held in Atlanta in April, 2001, Washington and regional representatives from safety and soundness, compliance and community affairs need to work together to effectively encourage thrifts to strategically develop the diverse opportunities presented by the communities they are chartered to serve. Within the agency, the Community Affairs staff’s primary mission is most closely aligned with this strategic goal. Through education, training, technical assistance, partnership formation and the reduction of regulatory barriers, the CA program staff help thrifts identify new market opportunities while supporting their efforts to meet credit and financial services needs in underserved segments of their communities. Other agency initiatives that contribute to achieving this goal include the Mutual Thrift Charter project and the efforts made by OTS staff through the Minority-Owned Institutions Program to provide technical assistance to minority-owned institutions.
PERFORMANCE PLAN EXPLANATION

Means to Accomplish the Annual Performance Goal Related to Strategic Goal #2:

- **Processes**
  
  OTS will continue to work with other banking regulatory agencies to enhance the efficacy of the Community Reinvestment Act and CRA regulations encouraging lenders to provide credit, service and investments to low and moderate income communities and households and other areas of greatest need. OTS will continue to work with financial institutions through the Community Affairs and minority owned institutions programs. OTS will continue to hold town meetings and other industry forums as a means of soliciting input from the industry and conveying the message of applying sound strategic planning in pursuit of market opportunities that enhance franchise value and contribute to community growth.

- **Staff Skills**
  
  OTS management is committed to maintaining a high degree of competence and skill for OTS employees. The OTS Community Affairs staff have a mix of regulatory experience and experience in the community development area. Those with regulatory backgrounds have received supplemental training from the National Development Council and have received or are pursuing certifications as Housing Development Finance Professionals and Economic Development Finance Professionals. All staff attend various training forums throughout the year as a means of staying abreast of current issues, best practices, etc. in the area of community and economic development. OTS compliance examination staff have regulatory and supervisory experience implementing the CRA regulations and the consumer protection laws. They also receive high-level training on these laws.

- **Technological Resources**
  
  The Home Mortgage Disclosure Act loan data required by the Home Mortgage Disclosure Act will be collected and edited by the Federal Reserve Board beginning in 2002. Previously OTS maintained an internal system to perform this function. The data is used to analyze the practices of all mortgage-lending institutions regulated by OTS and their mortgage-lending subsidiaries.

  The Community Affairs and Compliance Examination staff subscribe to a number of community development-related publications. They also use, as needed, the HMDA data, and CRA Wiz and HUD Community 2020 software for demographic information and lending patterns. In addition the staff uses a number of websites as technical resources.

**Strategies for Achieving Annual Performance Goal Related to Strategic Goal #2**

During the 12 month period ended May 2001, OTS held 24 town meetings involving 240 thrifts; held several outreach / focus group meetings with mutual institutions; sponsored or co-sponsored 150 training or partnership building events; and held the first-ever interagency conference for minority-owned thrifts and banks. In April 2001, OTS conducted the first-ever Thrift Industry Leadership Conference for CEOs and Directors focused on strategic planning, identifying new market opportunities and managing long term customer relationships. During 2002, OTS will continue to engage in “town meetings” in several cities nationwide, with the goal of understanding concerns of both the industry and the communities about the current CRA regulations; and provide nontraditional institutions with guidance that will maximize their contribution to neighborhood reinvestment wherever they do business.
**Education**

Encourage innovative solutions to obstacles that impede provision of affordable housing and meeting other credit and financial services needs.

⇒ Identify and collect data on profitability and efficiency.
⇒ Share information about profitability and efficiency of affordable housing programs to assist thrifts in meeting housing needs.
⇒ Implement program to educate industry and examination staff on economic benefits and potential long term profitability of expanding access to other credit and financial services to under-served segments of their communities.
⇒ Solicit from the industry what, if anything, OTS is doing to impede their efforts to meet the financial services needs of their communities.
⇒ Identify incentives to encourage expansion of services.
⇒ Work on interagency basis to develop exam procedures and other means that would serve as incentives for the industry to better serve their communities.
⇒ Work with Professional Development to incorporate themes from the 2001 Thrift Industry Leadership Conference into examiner training.
⇒ Offer programs to educate the industry regarding fair lending issues.

**Outreach**

In addition to the outreach to industry, OTS staff will establish relationships with community based organizations, state, local and federal government agencies, community development practitioners and others to ascertain needs, best practices, and partnership opportunities for thrifts.

**Training and Partnership Building**

Sponsor or co-sponsor training for financial institutions through national and regional conferences and local forums on various community development topics and partnership opportunities.

Encourage a partnership approach to building and maintaining viable and healthy communities whose housing, credit and financial services needs are met by:

⇒ Developing a plan to broaden responsibility for outreach to many OTS positions including assistant regional directors and many staff members in Washington, where appropriate;
⇒ Assess staffing levels in light of broader commitment; assess need for additional training;
⇒ Make community outreach a part of senior management performance objectives;
⇒ Increase and encourage employee volunteerism;
⇒ Develop Regional conferences and/or seminars with non-profit organizations and thrifts to foster partnerships;
⇒ Encourage thrifts to attend other partnership efforts sponsored by non-profit organizations. Report on efforts and actual attendance by thrifts at these events;
⇒ Hold conferences with mutual institutions to assess viable options to remaining mutual.
⇒ Hold regional forums with minority owned institutions.

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

**Policy**

Continue to ensure that thrifts understand and are ready to comply with the new privacy law and regulations.
Continue to pilot new exam procedures to ferret out predatory lending practices.

Clarify or change (as needed) the community development investment authority for thrifts and their service corporations.

Identify and help address regulatory barriers associated with CRA issues.

Work with other bank regulators to revise the CRA regulation to make it more flexible in addressing business strategies of, in particular, non-branch-based institutions, mid-sized institutions, and institutions focusing on service and/or investments.

Ensure the examination process takes into consideration or is sensitive to unique aspects or characteristics of mutual, minority-owned, and community development oriented financial institutions.

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

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

Key External Factors Potentially Affecting Achievement of Strategic Goal # 2

Economy: A downturn in the economy may impact thrifts’ appetite for and ability to engage in certain community development endeavors. It may also impact existing loan and investment portfolios. A downturn in the economy, however, will likely increase the need for credit, services and affordable housing in underserved or distressed markets.

Availability of Other Resources Targeting Community Development: Much of what the private sector does in community development is dependent on the availability of other resources to supplement or leverage private sector resources.

Demographics: The aging baby boomer generation and the growing immigrant population will likely impact credit needs and resources over the next decade, particularly in certain geographic locations around the country.
Strategic Goal 3: Utilize in the most complete and efficient way the talents, knowledge and enthusiasm of the agency to keep regulatory operations at the minimum level consistent with effective supervision.

Projected FY 2002 Expenditures

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<tr>
<td>Performance Goal 3a: Develop and maintain an OTS workforce capable of providing assistance to thrift institutions in meeting the thrifts’ regulatory responsibilities. Ensure that at least 60% of regulatory staff receive at least 30 hours of training annually.</td>
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<tr>
<td>Performance Measure 3a-1: The percentage of regulatory staff who will receive at least 30 hours of training designed to keep them current in regulatory issues and industry developments. The target for this measure is that 60% of OTS’s regulatory staff will receive this training.</td>
<td>NA*</td>
<td>NA*</td>
<td>69%</td>
<td>60%</td>
<td>28%</td>
<td>60%</td>
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*NA indicates the performance measure was not or will not be used during the specified year.
# The shortfall in meeting the 2001 target is explained below (see page 26) in the section entitled “Program Performance Report.”

**PERFORMANCE PLAN EXPLANATION**

Means to Accomplish the Annual Performance Goals Related to Strategic Goal #3

- Processes

Within the past year OTS developed new Technology Risk Controls guidance and training, issued several updates to the Thrift Activities Handbook and overhauled the Thrift Financial Report (TFR) with an eye towards reducing burden. OTS will continue to revise its regulations to reduce regulatory burdens consistent with safety and soundness.
OTS recently revised the Applications Processing regulation, handbook and forms, making the application process clearer and more consistent. OTS will continue to streamline the application process to be more simple, consistent and regionally implemented with respect to applications that do not raise new issues, to reach policy decisions on new issues as quickly as possible, and to enhance the application process to expand credit, service and investment in underserved communities.

† Staff Skills

OTS management is committed to maintaining a high degree of competence and skill for OTS employees. All OTS staff complete an Individual Development Plan each year. This plan includes detailed activities that the employee will complete during the year in order to achieve identified developmental objectives. Formal courses are a primary method of achieving these objectives; however, strong emphasis is placed on using alternative resources and means of development. For example, employees might follow up training in project management with an assignment to actually manage a project. Mentoring, cross-training, assignments to other offices or departments, research, reading, and self-study programs are other examples of OTS’s broad approach to employee development.

OTS management believes that maintaining staff enthusiasm is essential. Staff conferences help OTS staff exchange new ideas and get to know each other better. During 2000 two to four day staff conferences were held in Washington and all Regional Offices. These staff conferences will continue to be held every two to three years to help us plan, learn and work together more productively.

In June 2000 OTS produced the first interagency CD on sub-prime lending. This CD will be used chiefly by OTS’s examiners as both a training tool and a reference for relevant documents issued by OTS and the other financial regulators. A training CD on financial privacy was issued in July 2001.

OTS developed and piloted a new Housing and Economic Development Finance Course plus new courses in asset liability and risk management, real estate appraisal, credit scoring and advanced fair lending.

During late 2001, OTS plans to introduce a comprehensive management development program aimed initially at all first-level managers to ensure a common understanding about administrative policy and practices as well as to update skills in day-to-day management practices, such as communication and motivation.

† Technological Resources

OTS staff use several systems to help accomplish strategic goal 3 as set forth below:

The Corporate Structure System maintains a record of all institutions regulated by OTS. Most updates automatically result from actions that occur in the National Application Tracking System. The system maintains current and historic information about an institution such as its name, docket number, address, charter type, acquisitions, etc. This system is essential for the proper functioning of many OTS automated information systems such as the Thrift Edit, Thrift Time Series, Examination Data, National Application Tracking System, and Assessment Billing System.

The National Application Tracking System provides a central file of all applications processed by OTS. Applications that impact the corporate structure of a savings association automatically update the Corporate Structure System.

The Regulatory Profile System provides a brief narrative of information on high profile institutions and is updated quarterly by regional employees. The narratives consist of four sections: (1) Operating Policy, (2) Enforcement Actions, (3) Identified Risks and (4) Supervisory Strategy.
Strategies for Achieving Annual Performance Goals Related to Strategic Goal 3

Continue to improve the readiness of our workforce to take on new challenges.

Provide staff with the opportunity to develop the knowledge and skills necessary for proficient job performance and professional development; utilize technological best practices to provide opportunities.
⇒ Administer and expand a program that promotes, brokers and monitors individually-tailored professional development opportunities for the OTS staff.
⇒ Reassess content of training and methods of delivery, and use technology to create flexibility in training.
⇒ Integrate training with policy decisions.
⇒ Make available to a wide audience training material that is searchable.

Administer the Specialty Examination Program that encourages supervision staff to develop and maintain expertise in specialized risk areas.

Use existing and developing tools to communicate timely and continuously with staff in a useful way.
⇒ Continue to work with staff to find the most efficient way to use the Intranet to communicate.
⇒ Make effective use of video-conferencing to allow for discussions among regional personnel, and between Washington and the regions.
⇒ Use the Investment Review Board to better align information technology with the supervision process.

Increase responsiveness to internal customers.
⇒ Create internal customer service guidelines, including time frames.

The Office of Congressional Affairs will work with Senate Banking Committee and House Financial Services Committee staff to promote OTS’s regulatory burden reduction initiatives. The Office will continue to educate and to promote these initiatives to secure successful enactment.

OTS will continue to seek input from the industry, community groups, and front-line OTS staff (using focus groups, town meetings, and public comment periods) on ways that regulations can be revised to:
⇒ address issues facing the thrift industry;
⇒ give thrift management the room to exercise business judgment;
⇒ be flexible enough to allow the industry to evolve safely and soundly;
⇒ recognize where differential regulation (based on size, condition, or other relevant considerations) may be appropriate; and
⇒ be as clear as possible.

OTS will continue to publish proposed regulations, supervisory guidance, and legal opinions on the OTS website. In addition, applications being processed are listed under the following categories:
⇒ Applications for New Thrift Charters Detail Report - includes non-banking activity applications (e.g., insurance companies) dating from January 1, 1997; the list is updated monthly.
⇒ Applications in Process Database - A searchable database of applications from entities or individuals whose institutions are or would be regulated by OTS. Contains all applications in process as well as those completed within the last 12 months; this list is updated daily.
OTS will communicate to the industry and members of the public how they may submit comments on proposed regulations, suggestions for regulatory improvements, and requests for legal opinions and other agency advice electronically.

In regulatory and supervisory documents, OTS will routinely ask for public input about opportunities for reducing regulatory burden and how OTS can communicate more clearly and effectively on regulatory and supervisory issues.

Facilitate discussion between interested members of an affected community and the applicants to ensure a full and fair understanding of a merger and the effect it will have on communities.

Carefully evaluate all merger applications to consider the loss of service in single-family and multifamily lending, community outreach and access to financial services, and mitigate any negative impact to the extent feasible, consistent with statutory standards.

Use the application process to encourage non-predatory, non-abusive provision of credit, including home equity lending and consumer credit, to low- and moderate-income individuals and neighborhoods.

OTS will review the outstanding delegation of applications to the Regional Offices and, based on recent experience with application types, determine whether additional applications may be delegated. Application types that have become standard in terms of content, and where processing has become frequent and consistent in terms of treatment or resolution of issues, are candidates for delegation to the appropriate Regional office. The delegation of standard applications significantly reduces processing timeframes.

Provide for annual application staff meetings to ensure topical training, the opportunity for an in-depth exchange of ideas and to reinforce consistency in processing and analysis.

Ensure the close coordination of, and continual dialogue among, application processing, legal and compliance staffs.

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

OTS will continue to participate in the Shared National Credit program which helps increase examiner efficiency by eliminating duplicative examiner effort.

OTS will continue working with the other banking agencies to respond fully to the requirements of Section 303 of the Riegle Community Redevelopment and Regulatory Improvement Act of 1994 to streamline and modify regulations and improve interagency consistency.

OTS will work with the other banking agencies in using “plain English” techniques in interagency regulations consistent with Section 722 of the Gramm-Leach-Bliley Act.

**Key External Factors Potentially Affecting Achievement of Strategic Goal #3**

Reliance on various Federal agencies and other groups - OTS often partners with the OCC, the FRB, the NCUA, and the Federal Deposit Insurance Corporation when developing regulations and policy statements. Thus, OTS cannot control the timing or final result of these efforts.

The need to impose additional regulatory requirements is necessitated by new legislation and increasing complexity and changing risk profiles of institutions.
PROGRAM PERFORMANCE REPORT

**Performance Measure 3a-1:** Two events had a detrimental effect on successfully completing this performance measure. 1) The events of September 11, 2001 caused the cancellation of many training classes that would have required air travel by the participants. 2) OTS's conversion to fiscal year for budget and GPRA purposes resulted in the 2001 performance measures being calculated over a 9 month period rather than a 12 month period. Since OTS did not make the decision to change to a fiscal year until mid-2001, the three month shortfall was not taken into consideration when the target was set.
OTS primarily interacts with the thrift institutions it charters, examines and supervises and the customers these institutions serve. OTS also provides the general public with statistical reports, securities filings of stock institutions, chartering records and other information. It helps thrift customers with inquiries and complaints concerning thrift institutions, and provides thrifts with opinions on thrift law. To provide excellent service (in compliance with Executive Order 12862 dated September 11, 1993) without compromising safety and soundness, OTS has developed service standards for the Examination process, Congressional Correspondence, Interpretive Opinions, Consumer Assistance and Applications Processing. Every program with a published service plan sends a quarterly report to the OTS Ombudsman regarding its progress in meeting its stated service standards. The Ombudsman reviews the information, meets with the appropriate office to review the data, and suggests ways to improve service.

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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Performance Goal 4a: Develop, distribute and monitor adherence to service plans for major agency functions.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performance Measure 4a-1: The number of service plans that met their standards divided by the total number of service plans. (The goal is that all service plans will meet their standards at least 80% of the time; if this goal is met, OTS will report a 100% success rate for this measure.)</td>
<td>83.3%</td>
<td>80%</td>
<td>100%</td>
<td>100%</td>
<td>50% #</td>
<td>100%</td>
</tr>
</tbody>
</table>

# The shortfall in meeting the 2001 target is explained below (see page 28) in the section entitled “Program Performance Report.”

**PERFORMANCE PLAN EXPLANATION**

**Means to Accomplish the Annual Performance Goals Related to Strategic Goal #4**

- Processes

  The OTS Ombudsman is an independent, accessible, neutral source of assistance to thrift institutions and their customers. The Ombudsman troubleshoots and proposes different ways to improve the delivery of OTS services. He encourages the resolution of issues between thrifts and OTS directly with regional examination and supervisory staff. The Ombudsman can materially improve public satisfaction with OTS, and in the process, increase the level of voluntary compliance and cooperation, reduce litigation, and provide OTS decision-makers with the information needed to identify problems and resolve them.
OTS works well with its colleagues and with Congress. During the period which ended in May 2001 OTS staff testified before Congress three times and had 55 meetings on Capital Hill. OTS’s Director is the Vice-Chair of the FFIEC and serves on the FDIC audit committee. OTS chairs the FFIEC Supervision Task Force and its IT subcommittee, as well as the Examiner Education Committee.

In February 2001, OTS shared its FMFIA automated system with the FDIC and participated in the FDIC’s project management improvement program.

OTS’s recently revitalized Quality Assurance Program is encouraging improvements in all of its processes.

Staff Skills:

OTS management is committed to maintaining a high degree of competence and skill for OTS employees. All OTS staff members are aware of the importance of providing excellent customer service. As part of the annual Individual Development Plan described earlier, staff enrolls in training classes such as Making Presentations; Conducting Effective Meetings; Leadership, Change and Empowerment; Telephone Service Skills; Managing Multiple Priorities; Listening and Memory Development; Interpersonal Communications; Time Management; Problem Solving and Decision Making; Speaking with Confidence; Ethics for Litigators, as well as courses to enhance computer, verbal and writing skills, including Plain Language.

Technological Resources

Surveys are electronically supported by an Internet service provider or with the use of the Raosoft COTS product.

Strategies for Achieving Annual Performance Goals Related to Strategic Goal #4

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

Work with Supervision Policy, the Chief Counsel’s Office and OTS’s regional offices to ensure that the new editions of Directors Guide to Responsibilities, and Directors Guide to Management Reports are distributed to the directors of all OTS regulated institutions. These pamphlets will also be made available, via the OTS website, to the management, boards of directors, attorneys and consultants of all OTS-regulated thrifts.

Continue to offer a program of instruction to assist thrift directors in becoming more aware of the best practices of efficient boards of directors.

Make a professionally edited videotape, Directors’ Responsibilities, available to thrift institutions, especially newly-chartered thrifts. This videotape will provide both new and experienced directors with hands-on opportunities to develop the tools they need to understand how well management is operating their institution.
Crosscutting Efforts with Other Federal Financial Regulatory Agencies Related to Achieving Strategic Goal #4

The OTS Ombudsman’s efforts will primarily focus on problem resolution, communication and training. During 2002, the Ombudsman will sponsor Directors’ Forums for thrift directors and senior thrift officers. These forums will rely on the resources of OTS regional leaders, university instructors, OTS Washington staff and regional directors.

PROGRAM PERFORMANCE REPORT

Performance Measure 4a-1: Four customer service plans are included in this measure: Examination Process, Interpretive Opinions, Congressional Correspondence and Consumer Assistance. The first two met at least 80% of their standards. The standards in the Congressional Correspondence service plan were met 75% of the time; the standards in the Consumer Compliance customer service plan were met 55% of the time. OTS projects that the standards in the Congressional Correspondence Plan will be met during 2002 as the calculation period will be for 12 months during 2002 (rather than the 9 month period used for 2001 as a result of OTS changing to fiscal year for budget and GPRA purposes.)

OTS's Office of Compliance Policy strives to resolve consumer complaints within 30 days or notify the consumer within 30 days that more time will be needed to resolve their complaint. During 2001 Compliance Policy successfully resolved 55% of all consumer complaints within 30 days and the average complaint was resolved in 33 days. As Compliance Policy was not able to reliably confirm the "either/or" aspect of this performance measure, the overall percentage success rate is being reported as 55%. During 2002, with the full implementation of OTS's new Consumer Complaint System and subsequent system updates, OTS's tracking abilities will improve. Compliance Policy will review the new data and program resources during 2002 in order to determine whether the complaint handling procedures and standards should be modified.
### Performance Measures That Appeared in OTS’s 2001 Performance Plan That Will Not Be Used During 2002

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>The percentage of thrifts that received each type of examination to those scheduled to be examined.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Safety and Soundness</td>
<td>96.6%</td>
<td>97.9%</td>
<td>98.3%</td>
<td>95%</td>
<td>100%</td>
</tr>
<tr>
<td>Compliance (including CRA)</td>
<td>98.3%</td>
<td>99.3%</td>
<td>98.6%</td>
<td>95%</td>
<td>100%</td>
</tr>
<tr>
<td>Holding Company</td>
<td>86.7%</td>
<td>87.8%</td>
<td>91.1%</td>
<td>90%</td>
<td>95%</td>
</tr>
<tr>
<td>Information Systems</td>
<td>(a)</td>
<td>(a)</td>
<td>102%</td>
<td>90%</td>
<td>100%</td>
</tr>
<tr>
<td>Trust</td>
<td>87.5%</td>
<td>82.8%</td>
<td>91.3%</td>
<td>90%</td>
<td>100%</td>
</tr>
<tr>
<td>(a) During 1998 and 1999 Information Systems examinations were diverted to Y2K issues.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The percentage of examination reports reviewed that are deemed generally consistent with OTS examination policies and procedures.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>99%</td>
<td>100%</td>
<td>100%</td>
<td>99%</td>
<td>99%</td>
</tr>
<tr>
<td>The percentage of identified community development-related regulatory barriers addressed (either investment authority or CRA).</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>NA*</td>
<td>73%</td>
<td>57%</td>
<td>65%</td>
<td>50% #</td>
</tr>
<tr>
<td>The percentage of targeted new areas or groups reached. The goal is 90%.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>NA*</td>
<td>NA*</td>
<td>96.5%</td>
<td>90%</td>
<td>131% #</td>
</tr>
<tr>
<td>The percentage of thrift institutions targeted by OTS’s Office of Community Affairs that participated in OTS sponsored or co-sponsored events. The goal is 50%.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>NA*</td>
<td>NA*</td>
<td>45%</td>
<td>50%</td>
<td>71%</td>
</tr>
</tbody>
</table>

*NA indicates the performance measure was not or will not be used during the specified year.

# The shortfall in meeting the 2001 target is explained below (see page 31) in the section entitled “Program Performance Report.”
The events participated in or presentations given by senior management on community development related topics. The planned number of events/speeches is 25.

<table>
<thead>
<tr>
<th>Performance Measure</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001 Target</th>
<th>1/1 – 9/30 2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>The events participated in or presentations given by senior management on community development related topics. The planned number of events/speeches is 25.</td>
<td>NA*</td>
<td>25</td>
<td>23</td>
<td>25</td>
<td>25</td>
</tr>
</tbody>
</table>

The percentage of planned outreach, training, or partnership building events OTS sponsored or participated in. The goal is 90%.

<table>
<thead>
<tr>
<th>Performance Measure</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001 Target</th>
<th>1/1 – 9/30 2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>The percentage of planned outreach, training, or partnership building events OTS sponsored or participated in. The goal is 90%.</td>
<td>NA*</td>
<td>NA*</td>
<td>100%</td>
<td>90%</td>
<td>104%</td>
</tr>
</tbody>
</table>

Meet the application processing timeframes (either 30 or 60 days excluding time to deem complete) except when an application contains an issue of law or policy.

<table>
<thead>
<tr>
<th>Performance Measure</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001 Target</th>
<th>1/1 – 9/30 2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meet the application processing timeframes (either 30 or 60 days excluding time to deem complete) except when an application contains an issue of law or policy.</td>
<td>98.9%</td>
<td>98.3%</td>
<td>98.1%</td>
<td>98%</td>
<td>99.6%</td>
</tr>
</tbody>
</table>

The percentage of planned regulatory reinvention projects completed in question-and-answer plain language format.

<table>
<thead>
<tr>
<th>Performance Measure</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001 Target</th>
<th>1/1 – 9/30 2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>The percentage of planned regulatory reinvention projects completed in question-and-answer plain language format.</td>
<td>80%</td>
<td>100%</td>
<td>100%</td>
<td>85%</td>
<td>100%</td>
</tr>
</tbody>
</table>

*NA indicates the performance measure was not or will not be used during the specified year.

**PROGRAM PERFORMANCE REPORT**

**Performance Measure:** The percentage of identified community development-related regulatory barriers addressed (either investment authority or CRA). At the end of the 2001 fiscal year, three regulatory barriers are pending. Two issues have been referred to other regulatory agencies; and one issue is being addressed on an interagency basis. This measure has been deleted from OTS’s 2002 Performance Plan on the grounds that OTS does not have sufficient control to address regulatory barriers.

**Performance Measure:** The percentage of targeted new areas or groups reached. Due to the hiring of an additional staff person in the national office during 2001, the Community Affairs Program outreach efforts were substantially increased. As a result, a significant number of new areas and new groups were reached during this period.
Verification and Validation of Annual Performance Measurement Data

Baseline for All Performance Measures: The projected success rate for all of OTS’s performance measures is determined after taking into consideration the measures’ past success rate, analyzing mission priorities for the coming year and budget constraints, and considering possible effects from external factors.

Performance Data Quality for All Performance Measures: The quantitative values reported for OTS’s performance measures are accurate and auditable. Several of the quantitative values are generated with the help of OTS’s automated systems, which are routinely validated to ensure they produce accurate information. For example, the Examination Data System (EDS) supports the measure that reports the number of examinations completed to scheduled. The Thrift Information Management system (TIM) integrates information from the Examination Data System (EDS), Report of Examination (ROE), Regulatory Action Data System (RAD), Corporate Structure, Holding Company Structure, and National Application Tracking System (NATS). TIM provides access to those systems, ensures the data is consistent among the systems, and produces integrated reports. NATS supports the performance measure dealing with the application processing timeframes.

For each performance measure, a “contact person” is assigned. The contact person is responsible for ensuring that the “level of success” for his or her measure as reported in OTS’s Performance Report is accurate; the contact person is also responsible for keeping auditable records. In addition, the OTS quality assurance program, which has been in place since 1991, provides internal quality control for the examination process and for administrative functions performed in the five regional offices. OTS’s Quality Assurance Reviews determine the accuracy, reliability and fairness of information and financial data produced within the regions and ensures that all regional information complies with Federal Managers’ Financial Integrity Act (FMFIA) standards. FMFIA requires the heads of departments and agencies to establish internal accounting and administrative control programs in accordance with standards prescribed by the Comptroller General. The Quality Assurance program has been further enhanced through establishment of a new Office of Internal Review and Evaluation, reporting directly to the OTS Director. The Office of Internal Review conducts an annual independent review of OTS’s annual performance measures. The review includes detailed testing of source documentation for selected measures and an overall review for reasonableness. The Office then issues an opinion on the fairness of the performance measure data before the Director signs the Performance Plan and forwards it to Treasury.

The methodology used to capture the level of performance for each performance measure is described below:

Measure 1a-1: The percentage of thrift institutions that, after sixty days of having received an unsatisfactory safety and soundness rating, are either subject to a formal or informal enforcement action or have had such action waived.

Definition: OTS employs its enforcement powers to advance the agency’s supervisory mission of maintaining a safe and sound thrift industry. Most new enforcement cases focus on correcting unsafe and unsound practices in thrifts before they result in the institution becoming undercapitalized.

OTS’s CAMELS system is the same as the CAMELS rating system used by the other financial regulators (FDIC, OCC, NCUA, and Fed) for describing the condition of banks and credit unions. CAMELS is an acronym for Capital Adequacy, Asset Quality, Management, Earnings and Liquidity/Risk Management, and Sensitivity. OTS uses five CAMELS classifications: Those with CAMELS ratings of 1 or 2 are the healthiest thrifts; those with ratings of 3 are experiencing some difficulty, but their overall strength makes failure unlikely; and those with ratings of 4 or 5 are problem thrifts presenting the highest degree of concern.

To compute this measure OTS uses a management report prepared monthly with information taken from the Regulatory Action Data System (RADS) which tracks institutions that are rated 4 or 5 and also tracks whether these 4 or 5 rated institutions have received an enforcement action or decision for enforcement action within 60 days of the examination report.
The measure is calculated by dividing the number of thrifts that have received a formal or informal enforcement action or had such action waived during the specified time period (as a result of an unsatisfactory safety and soundness rating) by the number of thrifts that should have received a formal or informal enforcement action or had such action waived, during the specified time period.

Data Accuracy: Reasonable accuracy; data for this measure meets the accurate and auditable standards set forth under the above section entitled “Performance Data Quality for all Performance Measures.”

Measure 1b-1: The percentage of thrift survey responses that rate the examination process as being “satisfactory” or “better than satisfactory.”

Definition: The service plan for the examination process was published in September 1994. Since then, when an institution receives a Safety and Soundness, Compliance, Community Reinvestment Act, or Information Systems examination, it also receives a survey form, the purpose of which is to assess OTS’s performance against the service plan. The current survey form contains 11 questions. Each question measures one aspect of the performance of the examination team during the examination. Each of the 11 questions is answered either “yes” (signifying “satisfactory” or “better than satisfactory” performance), or “no” (signifying “less than satisfactory performance”). In addition, five of the questions allow qualitative responses (“very satisfied,” “somewhat satisfied,” “somewhat dissatisfied,” and “very dissatisfied”). The results from the service surveys are entered into a database. The regional service coordinator, who enters the results into the database, also enters an assessment as to whether the survey received an overall positive or negative response, based on the answers to each of the questions, plus any narrative comments in the survey.

The measure is calculated by dividing the number of surveys that received a positive response by the number of surveys received during the period. The time frame for calculating this measure is August 1, 2001 – July 31, 2002; OTS changed the time frame for calculating this measure due to a suggestion made by Treasury’s Office of Inspector General. The survey response rate is about 60 percent.

Data Accuracy: Reasonable accuracy; data for this measure meets the accurate and auditable standards set forth under the above section entitled “Performance Data Quality for all Performance Measures.”

Measure 1c-1: The percentage of thrift institutions that, after sixty days of having received an unsatisfactory compliance rating, are either subject to a formal or informal enforcement action or have had such action waived.

Definition: OTS employs its enforcement powers to advance the agency’s community reinvestment objective. Each institution receives a compliance rating from 1 to 5 following its compliance examination, and the ratings are entered into the Examination Data System (EDS). The Regulatory Action Data System (RAD) contains supervisory and enforcement action data. OTS will measure this standard using a Thrift Information Management (TIM) report with information taken from EDS and RAD, which tracks institutions with compliance ratings of “4” or “5” and also tracks whether these institutions have received an enforcement action or decision for enforcement action within 60 days of the day that the examination report was mailed to the institution.

The measure is calculated by dividing the number of thrifts that have received a formal or informal enforcement action or had such action waived during the specified time period (as a result of an unsatisfactory compliance rating) by the number of thrifts that should have received a formal or informal enforcement action or had such action waived, during the specified time period.

Data Accuracy: Reasonable accuracy; data for this measure meets the accurate and auditable standards set forth under the above section entitled “Performance Data Quality for all Performance Measures.”
Measure 1d-1: The percentage of OTS-regulated thrift institutions that are either at least adequately capitalized, operating under an approved Capital Plan or Prompt Corrective Action (PCA) Directive, have been undercapitalized for less than 150 days, or have received prior approval by the Deputy Director for exceeding the 150-day timeframe for issuance of a PCA Directive.

Definition: OTS has adopted a measure that addresses both of the objectives of the PCA: 1) to recapitalize undercapitalized thrifts at the least cost to the deposit insurance fund; and 2) to do it “promptly.” The statute requires that institutions submit capital restoration plans within 45 days of becoming “undercapitalized,” and for the agency to act on the capital plan generally not later than 60 days after submission. The OTS policy is to formally act on capital plans through the issuance of a PCA directive. The measurement adopted allows 150 days from the thrift becoming “undercapitalized,” to issue the PCA Directive. This time frame includes notification, capital plan submission, review, decision on the capital plan, and issuance of the PCA Directive. Alternatively, OTS can also comply with the measurement if the institution does not fail and is recapitalized, even if the 150 day time frame is exceeded.

OTS will measure its performance against this standard through the PCA Monitoring Reports prepared quarterly. The measure will be calculated by adding a) the total number of institutions that are at least adequately capitalized, b) the institutions that are under a PCA directive or have been recapitalized to the “adequately capitalized” level and c) the institutions that are operating within an approved Capital Plan within 150 days of becoming undercapitalized, and then dividing that number by the total number of OTS-regulated institutions.

Data Accuracy: Reasonable accuracy; data for this measure meets the accurate and auditable standards set forth under the above section entitled “Performance Data Quality for all Performance Measures.”

Measure 2a-1: The number of institutions that OTS provides one-on-one technical or strategic planning assistance to in their efforts to meet their CRA obligations or expand the full range of housing, other credit and financial services to all segments of their communities. The goal is the 2002 baseline.

Definition: Part of OTS’s long term strategic goal is to support the industry’s efforts to meet its CRA obligations and expand the full range of housing, other credit and financial services to all segments of their communities. Thus, OTS will offer technical assistance to each institution that receives a “Needs to Improve” or lower CRA rating. In addition, OTS will offer assistance and actively work with those institutions that want our assistance. The assistance will be offered by either the Community Affairs program staff or the Compliance Examination staff.

The measure will be calculated by adding up the number of institutions that have been provided one-on-one technical or strategic planning assistance during the period.

Data Accuracy: Reasonable accuracy; data for this measure meets the accurate and auditable standards set forth under the above section entitled “Performance Data Quality for all Performance Measures.”

Measure 2b-1: The number of new partnerships formed, activities/programs commenced or investments made as a result of OTS’s outreach, technical assistance, training, or partnership building activities. The goal is the 1999 baseline.

Definition: Each OTS regional office will follow up periodically with thrifts and others with whom it has worked directly (through outreach, training, partnership building and one-on-one assistance) to determine whether an investment was made, partnership was formed or activity commenced as a result of OTS’s work. OTS will report on those investments, partnerships or activities that it becomes aware of.

The measure will be calculated by adding up the number of new partnerships formed, activities or programs commenced or investments made as a result of OTS’s outreach, training or partnership building activities.
Measure 3a-1: The percentage of regulatory staff who will receive at least 30 hours of training designed to keep them current in regulatory issues and industry developments. The target for this measure is that 60% of OTS’s regulatory staff will receive this training.

Definition: Another aspect of OTS’s regulatory oversight is its focus on dynamic, needs-based employee training. OTS’s new Professional Development Program enables examiners to assess their training and development needs, which in turn, identifies needed areas of training. Regional supervisors assess upcoming and emerging issues at institutions in the region, the strength of regional examiners in the skills required to address these needs, and the training which would address areas of need. The Professional Development Program, specialty examiner tracks, accreditation programs, and a soon-to-be-piloted management development program, keep employee skills at top levels.

OTS will calculate this measurement by dividing the number of regulatory staff who received at least 30 hours of training by the total number of regulatory staff. OTS will retrieve the raw data from the training data base of the Office of Professional Development (OPD).

Data Accuracy: Reasonable accuracy; data for this measure meets the accurate and auditable standards set forth under the above section entitled “Performance Data Quality for all Performance Measures.”

Measure 4a-1: The percentage of service plans that met their standards at least 80% of the time. If this goal is met, OTS will report a 100% success rate for this measure.

Definition: On September 11, 1993, President Clinton issued an Executive Order entitled “Setting Customer Service Standards.” The purpose of the Order was to facilitate the establishment and implementation of service standards within the government. The order requires agencies to survey their customers to understand their needs and expectations. Agencies must then set forth and publish standards that address customer needs. OTS subsequently established set standards for core external groups in response to the Executive Order.

OTS believes its primary stakeholders are the thrift institutions it charters, examines and supervises and the customers these institutions serve. OTS published a service plan in 1994 for the examination process. The standards for the examination process can be grouped by pre-examination process, examination fieldwork, and post-examination process. OTS measures the standards set forth in this plan by conducting formal surveys and participating in town meetings and focus groups throughout the nation.

Service plans for Congressional Correspondence, Interpretive Opinions, Applications Processing and Consumer Assistance have also been published. Other service plans will be created as needed. Every office with a published service plan reports to the OTS Ombudsman on a quarterly basis regarding whether it is meeting its stated service standards. The OTS Ombudsman analyzes the information and presents a detailed report to the agency’s senior managers.

The quantitative value for this performance measure will be obtained by dividing the number of service plans that met their stated goals 80 percent of the time by the total number of service plans. The OTS goal is that all of OTS’s service plans will meet their specified goals at least 80 percent of the time; if all service plans reach the 80% goal, a 100% success rate will be reported for this measure.

Data Accuracy: Reasonable accuracy; data for this measure meets the accurate and auditable standards set forth under the above section entitled “Performance Data Quality for all Performance Measures.”
Special Analysis

Program Evaluations of OTS Activities

OTS lists one program in its annual OMB budget submission - the supervision of thrift institutions. Both internal and external program evaluations and reviews are conducted periodically to determine whether or not specific OTS activities are accomplishing their stated objectives and ultimately contributing to OTS’s overall mission.

OTS’s four strategic goals guide the agency’s day-to-day activities and core processes and help ensure that resources are used to support mission-related outcomes. As the thrift environment changes, OTS may alter its strategic goals, performance goals and activities to meet any new challenge and to enable OTS to continue to effectively and efficiently accomplish its mission in the immediate thrift environment. OTS measures the progress of achieving its performance goals through the development and quarterly tracking of outcome-oriented performance measures. See page 20 of OTS’s Strategic Plan (2000 – 2005) for a description of diagram of OTS’s program evaluation process.

Regional Quality Assurance (QA) Program - OTS’s Quality Assurance Program provides an internal review process that exceeds FMFIA standards; it provides OTS’s Director with an independent firm basis for assurance that the examination and supervision programs are being carried out in an efficient and effective manner. The QA Program is headed by an experienced manager in each of OTS’s five regions. QA staff perform independent reviews of national and regional priorities and various studies at the request of OTS’s Director and other senior level staff. QA staff coordinate their reviews and share best practices from reviews and studies with all regions through the Director of Internal Review. QA managers also assist the Director of Internal Review with Treasury’s Inspector General and General Accounting Office audits and studies.

Yearly Financial Statement Audit: The foundation of OTS’s financial management control program is its annual financial statement audit. Between 1990 and 2000 OTS has received eleven consecutive unqualified opinions on its financial statements. In addition, no material weaknesses or instances of nonconformance are pending. OTS expects to continue receiving unqualified opinions from its independent auditors.

Financial Management Systems - OTS uses an off-the-shelf accounting system purchased from Computer Data Systems as the key component of its financial management system. OTS’s financial management system is comprised of the Primary Accounting System (which operates on a calendar-year basis), the Assessment Billing System, the Budget System, the Payroll/Personnel System, the Positions/Personnel Reporting System and the Time Activity Reporting System. Other critical components of the financial management system are the National Application Tracking System, and the Furniture, Fixtures, and Equipment Tracking System.

OTS’s financial management system produces accurate, relevant and timely information. Summary financial reports and budget variance reports are provided to senior management on a monthly basis to assist in decision making. OTS has received an unqualified audit opinion on all of its audited financial statements since 1990.
### GAO Evaluations

<table>
<thead>
<tr>
<th>GAO Evaluations</th>
<th>Date Opened</th>
<th>Status</th>
<th>Comments if Any</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance with Mandatory Purchase Requirement for Flood Insurance</td>
<td>9/7/00</td>
<td>Open</td>
<td>Final Report is due at the end of September 2001.</td>
</tr>
</tbody>
</table>

### Treasury IG Audits and Reviews

<table>
<thead>
<tr>
<th>Treasury IG Audits and Reviews</th>
<th>Date Opened</th>
<th>Status</th>
<th>Comments if Any</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit of Department of Treasury’s activities relating to the collection of personal data about individuals who access Departmental internet sites (P.L. 106-554, Consolidated Appropriations Act, 2001 H.R. 5658)).</td>
<td>Engagement letter dated 1/24/01</td>
<td>Open</td>
<td>Audit in progress.</td>
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<tr>
<td>Audit of Treasury’s Financial Crimes Enforcement Network (FinCEN)</td>
<td>Entrance Conference 2/6/01</td>
<td>Open</td>
<td>Audit in progress.</td>
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<tr>
<td>Audit of OCC’s and OTS’s Suspicious Activity Reports (SARs) as a spin-off of the OIG’s audit of Treasury’s Office of Foreign Asset Control (OFAC).</td>
<td>Entrance Conference 8/10/2000</td>
<td>Open</td>
<td>Audit in progress.</td>
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</table>
### Treasury IG Audits and Reviews

<table>
<thead>
<tr>
<th>Audit Description</th>
<th>Date Opened</th>
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<tbody>
<tr>
<td>Review of Thrifts’ Compliance with Community Reinvestment Act.</td>
<td>5/25/99</td>
<td>Open</td>
<td>Audit completed. Draft report being reviewed by OIG management.</td>
</tr>
<tr>
<td>Audit of the Office of Foreign Assets Control’s OFAC Foreign Sanction Program</td>
<td>6/30/00</td>
<td>Open</td>
<td>Audit still in progress.</td>
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<tr>
<td>Material Loss Review (Superior FSB)</td>
<td>8/1/01</td>
<td>Open</td>
<td>Audit in progress.</td>
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<tr>
<td>Review of Inventory Practices</td>
<td>7/24/01</td>
<td>Open</td>
<td>Audit in progress.</td>
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</table>

**Office of Internal Review** - The Director of Internal Review reports directly to OTS’s Director and oversees the work of the Quality Assurance Program. Internal Review oversees all internal controls and works with the General Accounting Office and Treasury’s Inspector General. Internal Review analyzes OTS’s financial management reports and ensures that all OTS staff are working as effectively and efficiently as possible. Internal Review also meets with other financial regulatory agencies to share best practices.

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

OTS’s Annual Assurance Statement for the fiscal year ending September 30, 2000, as required by FMFIA, indicated that OTS’s management control systems are adequate and ensure that programs achieve their intended results; resources are used consistent with the OTS mission; programs and resources are protected from waste, fraud, and mismanagement; laws and regulations are followed; and reliable and timely information is obtained and used for decision making.

In addition, none of the quality assurance and other reviews, audits, management studies, or program and annual evaluations conducted during FY 2000 identified any Section 2 (programs and administrative functions) significant or “material” weaknesses, or Section 4 (financial systems) material nonconformances. OTS reviews its existing FMFIA program annually to ensure that it satisfies all statutory requirements and OMB guidance, and that it facilitates managers’ participation and compliance. OTS’s FMFIA program will change as statutory requirements and OMB guidance change.

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

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<th>Program, Operation or Function</th>
<th>Review Year</th>
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<td>Management Controls (FMFIA)</td>
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<td>Policy / Examinations / Supervision</td>
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<td>System Operations and Telecommunications</td>
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<td>HelpDesk and Web Services</td>
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<td>Library</td>
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<td>Lease Agreements</td>
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<td>Simplified Acquisitions</td>
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<td>Mailroom / FAX Operations and Transportation Services</td>
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<td>Records Management</td>
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**Supplemental Information**

**Aid by non-Federal Parties:** No non-Federal persons or other entities were used in the preparation of this performance plan. The only outside assistance utilized was provided by the Department of the Treasury and the Office of Management and Budget, in the form of guidance to help OTS prepare this plan in accordance with OMB Circular A-11.

**Waivers:** OTS does not require any waivers of administrative requirements associated with the preparation of this performance plan.

**Adjustments:** No significant adjustments have been made to the wording of OTS’s mission statement, or strategic goals since the issuance of OTS’s 2000 – 2005 Strategic Plan. Several performance goals and performance measures have been deleted from this Performance Plan as a result of a request from the Department of the Treasury that indicated that bureau Performance Plans for 2002 should contain a smaller and more useful set of measures that represent the best thinking on what critical performance information is needed to manage Treasury programs and gauge their success.