

OFFICE OF THRIFT SUPERVISION

OMB FY 2005
BUDGET/PERFORMANCE PLAN
SUBMISSION

Office of Thrift Supervision
FY 2005 Departmental Performance Budget Request

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SECTION 1 – STRATEGIC CONTEXT

STRATEGIC CONTEXT FOR THE FY 2005 BUDGET/PERFORMANCE PLAN

The Office of Thrift Supervision's (OTS) annual Performance Plan demonstrates the use of OTS resources to achieve its mission. OTS receives no appropriated funds from Congress. Income of the bureau is derived principally from assessments on savings associations and savings and loan holding companies, examination fees, and interest on investments in U.S. government obligations. Without compromising responsibilities and the risk-based examination approach, OTS strives to manage its operations and budget to ensure that assessment rate increases do not exceed the inflation rate. However, if we believe that events require more personnel or other expenditures, we may increase assessments to raise the required resources.

Mission

The mission of the Office of Thrift Supervision is to supervise savings associations and their holding companies in order to maintain their safety and soundness and compliance with consumer laws, and to encourage a competitive industry that meets America's financial services needs.

Established by Congress as a bureau of the Department of the Treasury on August 9, 1989, OTS charters, examines, supervises, and regulates federal savings associations insured by the Savings Association Insurance Fund (SAIF). OTS's primary statutory authority is the Home Owners' Loan Act (HOLA) originally enacted in 1933. OTS also examines, supervises, and regulates state-chartered savings associations belonging to the SAIF and provides for the registration, examination, and regulation of savings and loan holding companies and other affiliates. The OTS sets capital standards for Federal and State savings associations and reviews applications of State-chartered savings associations for conversion to Federal charter.

As of September 2004, OTS regulated 896 savings associations with total assets of \$1.23 trillion. Savings associations operated in a safe and sound manner with 93 percent achieving an overall composite CAMELS rating of 1 or 2. The CAMELS rating reflects OTS's evaluation of an institution's capital, asset quality, management, earnings, liquidity, and sensitivity to market risk. Overall, the earnings performance of the savings associations remains extremely strong. Net income reached \$3.50 billion in the third quarter of 2004. This was the second highest net income for savings associations and marked the eighth quarter that net income topped the \$3 billion mark. Profitability, as measured by return on average assets (ROA), was 1.15 percent. Savings associations remain primarily residential mortgage lenders. As of September 2004, 55 percent of savings association assets were invested in 1-4 family mortgage loans, up from 49 percent one year ago. The industry's capital position remains strong with over 99 percent of the savings associations exceeding well-capitalized standards. The assets of problem savings associations, those with composite examination ratings of 4 or 5, declined to \$294 million compared with \$602 million as of September 2003.

OTS also supervises approximately 950 savings and loan holding companies in 481 corporate structures. Over half of all savings associations and 80 percent of total savings association assets are owned by OTS-regulated holding companies. These holding company structures control approximately \$6.9 trillion in consolidated assets and vary widely in their operations and structure. Almost 60 structures are engaged in significant lines of business other than banking and financial services, such as agriculture, real estate, retailing and manufacturing.

OTS Strategic Goals

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

Key Strategic Issues

Director James E. Gilleran approved OTS's FY 2005 budget of \$187.9 million on September 1, 2004. The budget directly supports OTS's strategic and performance goals that provide for proactive supervision of the industry, reduced regulatory burden, and improved credit availability. The FY 2005 budget enables OTS to continue tailoring supervisory examinations to the risk profile of the institutions, while effectively allocating resources to oversee and assess the safety and soundness and consumer compliance record of the thrift industry.

Supervision: OTS assesses the financial condition and risk profile of savings associations and the consolidated enterprise within which they operate. OTS also identifies violations of law and regulation and potential financial and economic problems. OTS will continue to strive to maintain a thrift industry that is sufficiently capitalized, conduct examinations in an efficient and effective manner, encourage continuous communication with association management, and minimize financial regulatory burden.

Financial Crimes: To combat fraud and money laundering and protect the integrity of financial systems, OTS examines savings associations for compliance with the requirements of the Bank Secrecy Act, the USA PATRIOT Act, and other anti-money laundering laws. Through examinations, guidance, and training, OTS will continue to assess the financial condition and risk profile of the thrift industry and identify violations of law and regulation.

Credit Risk: As community-based lenders, the majority of savings associations' loans are made to consumers. Direct loans to consumers, including single-family mortgages, made up 60.8 percent of savings association assets as of September 30, 2004. Savings associations' asset quality is dependent on stable real estate values, a favorable employment environment, and consumers' continued ability to service their debt. Credit review is a significant priority in OTS's examination process.

Interest Rate Risk: OTS closely monitors interest rate risk due to the thrift industry's natural concentration in longer-term mortgage loans, which are generally funded with shorter-term deposits and borrowings. OTS maintains an interest rate risk sensitivity model that stress-tests savings association portfolios to evaluate potential exposure to changing interest rates. The model allows OTS to assess interest rate risk exposure. OTS remains cautious of the potential impact of a rapid increase in market interest rates, and OTS will remain vigilant in monitoring savings associations for adverse trends.

Fair Access: A strong and healthy thrift industry helps to support a strong domestic economy. OTS addresses unfair or deceptive practices of regulated savings associations and promotes fair access to financial services for all Americans and fair treatment of customers. OTS will continue to work with savings associations on ways they can assist underserved markets in their communities. Examinations help to prevent development or continuation of unsafe operating practices and to ensure compliance with consumer protection laws and regulations.

Global Financial Services: OTS is actively working with both domestic and international supervisors to ensure that the thrift industry remains a healthy and robust component of the domestic and global financial services marketplace. First, the Basel Committee and U.S. bank and thrift regulators are attempting to improve upon our current system by making capital standards more risk sensitive. OTS is evaluating issues to ensure that the new framework results in safe and sound capital allocation and fair competition among all financial institutions. Second, OTS is engaged in active dialogue with the European financial supervisors. The European Union (EU) is seeking to ensure that financial conglomerates domiciled outside the EU member countries are subject to an equivalent level of supervision by foreign supervisors and to enhance coordination among relevant supervisors and other supervisors around the world. OTS is the consolidated supervisor of U.S. based savings and loan holding companies, including a number of financial conglomerates active in the EU.

Regulatory Burden: The federal financial regulatory agencies began a multi-year effort in 2003 to obtain suggestions from the industry and public on more streamlined and less burdensome ways to regulate. The interagency Economic Growth and Regulatory Paperwork Reduction Act project team encompasses a review of regulations for unnecessary burden.

Technology/Operational Risks: The growth of Internet banking, outsourcing of core banking functions, and the rapid pace of technological and financial innovation creates new challenges and concerns. OTS's Information Technology examiners and specially trained safety and soundness examiners assess savings associations' use of technology. Contingency planning, back-up, and recovery programs are receiving increased supervisory attention. To the extent that a saving association is part of a complex conglomerate that manages these risks on an enterprise-wide basis, OTS evaluates the risk on a consolidated basis.

CHANGES/ADDITIONS BETWEEN THE STRATEGIC PLAN AND/OR BUDGET ACTIVITIES

OTS completed and issued its Strategic Plan for fiscal years 2003 – 2008 on August 28, 2003. OTS's program is to ensure a safe and sound thrift industry. No adjustments to the Strategic Plan are planned at this time.

OTS SUPPORT OF TREASURY GOALS AND OBJECTIVES

The tables below display the relationship between OTS’s strategic goals to Treasury’s Strategic Plan.

Treasury Strategic Goal: Preserve the integrity of financial systems (F3)		
Treasury Strategic Objective	OTS Strategic Goal	Performance Goals Linked to Strategic Goal
Increase the reliability of the U.S. Financial System (F3C)	<p>A safe and sound thrift industry.</p> <p>Fair access to financial services and fair treatment of thrift customers.</p> <p>A professional and motivated workforce that provides exceptional service to its customers and supports achievement of OTS business goals.</p>	<p>Ensure that OTS-regulated thrift institutions operate in a safe and sound manner through effective supervision.</p> <p>Maintain a thrift industry that is sufficiently capitalized.</p> <p>Conduct examinations in an efficient and effective manner.</p> <p>Maintain a thrift industry that effectively complies with compliance laws and regulations.</p>
Treasury Strategic Goal: Promote prosperous U.S. and World economies (E1)		
Treasury Strategic Objective	OTS Strategic Goal	Performance Goals Linked to Strategic Goal
Provide a flexible legal and regulatory framework. (E1B)	A flexible legal and regulatory framework that enables the thrift industry to provide a full competitive array of financial services.	Minimize financial regulatory burden on thrifts.

SECTION 2 – THE PERFORMANCE BUDGET**SUMMARY OF TOTAL PROGRAM OPERATING LEVEL BY TREASURY GOAL AND OBJECTIVE**

Dollars in Thousands			
Treasury Goal/Objective	FY 2004 Actual	FY 2005 Estimate	FY 2006 Estimate
Treasury Goal: Preserve the integrity of financial systems (F3) Budget Obligation Full-Time Equivalent (FTE)	\$160,842 797	\$169,110 828	\$173,338 828
<u>Objective:</u> Increase the reliability of the U.S. Financial System (F3C) Budget Obligations Full-time Equivalents	\$160,842 797	\$169,110 828	\$173,338 828
Treasury Goal: Promote prosperous U.S. and World economies (E1) Budget Obligation Full-Time Equivalent (FTE)	\$17,871 89	\$18,790 92	\$19,260 92
<u>Objective:</u> Provide a flexible legal and regulatory framework (E1B) Budget Obligations Full-time Equivalents	\$17,871 89	\$18,790 92	\$19,260 92
Total Budget Obligation Total Full-Time Equivalent (FTE)	\$178,713 886	\$187,900 920	\$192,598 920

DIGEST OF FY 2005 BUDGET ESTIMATES BY ACTIVITY

Dollars in Thousands								
BUDGET ACTIVITY	FY 2004 Actual		FY 2005 Budget Estimate		FY 2006 Budget Estimate		INCREASE (+) OR DECREASE (-) FOR	
							TOTAL CHANGES	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Program Operating Level								
1. Supervision of thrift industry	886	\$178,713	920	\$187,900	920	\$192,598	0	+4,698
Total Program Operating Level	886	\$178,713	920	\$187,900	920	\$192,598	0	+\$4,698

OTS has one Program and one Budget Activity: the supervision of thrift industry.

SECTION 3 - EXPLANATION OF PERFORMANCE AND RESOURCES BY BUDGET ACTIVITY

NARRATIVE SUMMARY OF PROGRAM RESOURCES AND PERFORMANCE

OTS's operations support its budget activity: the supervision of the thrift industry. For this activity, budget and performance information are aligned by strategic goal to discuss trends and performance challenges and expectations.

BUDGET ACTIVITY: Supervision of the thrift industry

OTS's program and budget activity are focused on the supervision of the thrift industry, which includes savings associations, their subsidiaries, savings and loan holding companies, and other affiliates. OTS's four strategic goals guide the annual budget preparation. Current year resources and projected needs for the upcoming year are evaluated. The budget is prepared after analyzing projected regulatory and statutory changes, industry risks, operational costs, and economic challenges. As described in Section 2, OTS's program and strategic goals support two Treasury strategic objectives.

OTS is headquartered in Washington D.C. with four regional offices located in Jersey City, Atlanta, Dallas, and San Francisco. The headquarters office develops nationwide policies and programs for the agency and coordinates the operations of OTS. The regional offices examine and supervise institutions, and process most applications. Approximately 75 percent of OTS's staff of 900 employees works in regional offices.

The President, with Senate confirmation, appoints OTS's Director 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 STRATEGIC GOAL 1: A safe and sound thrift industry.

Through the examination process, OTS assesses the financial condition and risk profile of savings associations, including their ownership structure, and identifies and addresses unsafe and unsound practices and violations of law and regulation. Through the off-site monitoring process, OTS regularly monitors the financial performance of individual savings associations and the industry enabling early identification of emerging trends or problems. When safety and soundness or compliance issues are identified, OTS acts promptly to ensure association management and directors institute corrective actions to address supervisory concerns. OTS ensures that its staff is well trained to identify and address current and emerging risks and that examiner guidance is appropriate and current.

Due to favorable economic conditions, a stable industry, and the regulatory oversight that OTS provides, the thrift industry has been operating in a safe and sound manner and performing extremely well. OTS examines savings associations every 12-18 months for safety and soundness, compliance, and consumer protection laws. During these exams, the association's ability to identify, measure, monitor, and control risk is evaluated including the risk posed by other entities within the corporate structure. When weaknesses are identified, supervisory action is taken. OTS continually assesses its examination procedures to ensure that there is an adequate review of the association's controls and risk management processes.

Aggregate assets of problem savings associations, those with composite examination ratings of 4 or 5, declined to \$294 million as of September 2004 compared with \$5.0 billion as of June 2001. The low interest rate environment over the past few years has also benefited the thrift industry. In the past year, the Federal Reserve has increased rates, but in small increments. This gradual increase has allowed the industry time to react to such an increase and adjust their balance sheets to offset potential interest rate risk exposure. The few savings association failures that have occurred in the past few years have been due to idiosyncratic factors versus systemic economic factors.

EVALUATION OF FY 2005 PERFORMANCE PLAN

Evaluation of the FY 2005 Program Performance Compared to FY 2004

The FY 2005 performance targets reflect a strong thrift industry. OTS began to combine safety and soundness and compliance examinations in 2002 to attain exam efficiencies and to improve risk assessment. Exam teams assess a savings association's capital adequacy, asset quality, management, earnings, liquidity, sensitivity to market risk, and compliance with consumer protection laws and regulations by conducting comprehensive examinations whereby OTS issues one report covering safety and soundness and compliance disciplines. Using comprehensive exam procedures, compliance with consumer protection laws is reviewed at more frequent intervals, which has improved the quality of the examination process. OTS also examines savings and loan holding companies and other affiliates concurrently with the savings association whenever practical.

During 2004, OTS reorganized its Washington supervision oversight operations in order to manage the evolving direction of the thrift industry more effectively. OTS established three primary entities within a newly structured Office of Examinations, Supervision, and

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Consumer Protection. The first of these entities oversees the most complex institutions as well as savings and loan holding companies with significant international operations. The second entity oversees the examination and supervisory operations for all other regulated institutions. The third oversees all policy development affecting OTS examination and supervision, including capital markets, trust, consumer protection, accounting, and information technology.

OTS participates on the Basel Committee on Banking Supervision (BCBS) in order to ensure that pending international capital standards take into consideration the various needs of the thrift industry. OTS participates in several international and domestic committees and working groups that are tasked with implementing the components of the Basel II capital accord. Internationally, OTS participates on the Capital Task Force, the Accord Implementation Group and the Corporate Governance working group. OTS also participates on BCBS subgroups including the Accounting Task Force, Validation subgroup and the Loss-Given-Default working group.

OTS participates on the domestic Accord Implementation Group, (the “Steering Group”) with representatives of the OCC, FDIC and the Federal Reserve Board. OTS participates on several domestic interagency working groups that have been created by the Steering Group. These working groups include the Supervisory Guidance Development Committee (GDC), several Supervisory Guidance Development Teams (GDTs), the Quantitative Impact Study (QIS) workgroup and the Operational Risk workgroup.

In 2004, OTS executed an agreement with the European Commission (EC) to enhance information sharing between OTS and international financial services supervisors within the European Union (EU). The OTS/EC agreement is an addendum to an agreement previously executed by the EC with the Office of the Comptroller of the Currency and the Board of Governors of the Federal Reserve System. With the addition of OTS, the agreement facilitates comprehensive consolidated supervision of all insured depository institutions and their holding companies that operate in both the United States and the EU. Also in 2004, OTS entered into information sharing agreements with De Nederlandsche Bank and the Office of the Superintendent of Financial Institutions in Canada. OTS, the U.S. consolidated holding company supervisor of General Electric (GE), was notified in December 2004 that it was named the equivalent consolidated holding company supervisor in the European Union for GE Capital Services Limited (GECS).

To combat fraud and money laundering and protect the integrity of financial systems, OTS examines savings associations for compliance with the requirements of the Bank Secrecy Act (BSA), the USA PATRIOT Act, and other anti-money laundering laws. The following 2004 actions demonstrate OTS’s vigorous and diligent efforts to ensure maximum compliance with the BSA and the Patriot Act:

- Reduction in the interval between BSA examinations;
- Education of the industry and OTS staff;
- Expansion in the number of examiners who are reviewing BSA and Patriot Act compliance on an on-going basis;
- Implementation of a new BSA tracking and monitoring information system;
- Implementation of additional internal controls governing data collection, examination, and enforcement activities;
- Adoption of new enforcement policies;
- Implementation of a new BSA Quality Assurance audit program; and

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- Creation of a Memorandum of Understanding between OTS, the other federal banking agencies, and FinCEN to formalize and enhance the information sharing process.

Efforts to ensure compliance with the BSA and the Patriot Act will continue in 2005.

In addition to on-site examinations, OTS will continue in FY 2005 to perform off-site financial monitoring of each institution based on quarterly Thrift Financial Reports, the Uniform Thrift Performance Report, Holding Company and Securities and Exchange Commission reports, and other information. OTS will also continue to conduct on-going monitoring of capital levels and earnings performance of savings associations.

FY 2006 PERFORMANCE PLAN

FY 2006 Proposed Program Performance

The FY 2006 performance targets that remain have been established at the same level planned for FY 2005.

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

OTS receives no appropriated funds from Congress. Income of the bureau is derived principally from assessments on savings associations and savings and loan holding companies, examination fees, and interest on investments in U.S. government obligations. Without compromising responsibilities and the risk-based examination approach, OTS strives to manage its operations and budget to ensure that assessment rate increases do not exceed the inflation rate. Annually, OTS analyzes its operating costs and compares them to the assessments it charges savings associations and holding companies in order to achieve an assessment structure that keeps assessment rates as low as possible while providing OTS with the resources necessary for effective supervision.

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

OTS has already achieved certain efficiencies while reducing regulatory burden by issuing one information request package at the start of each examination, examining lending portfolios from both a compliance and safety and soundness perspective, and preparing one comprehensive examination report that details all exam findings. Over time, OTS expects this comprehensive approach will further reduce the costs and burden of examinations on savings associations while promoting efficient, risk-focused examinations. This new approach has also received an overwhelmingly favorable response from the majority of savings associations.

EVALUATION OF FY 2005 PERFORMANCE PLAN

Evaluation of the FY 2005 Program Performance Compared to FY 2004

The OTS budgetary process strives to keep costs to regulatory entities as low as possible while ensuring that OTS has the necessary resources to effectively fulfill its supervisory responsibilities. The assessment rate increases for savings associations have stayed below the inflation rate for the past two years. In May 2004, OTS replaced examination fees for savings and loan holding companies with semi-annual assessments, and eliminated the alternative calculation of semi-annual assessments for small “qualifying” savings associations. The new system provides savings and loan holding companies with consistency and predictability regarding costs, allowing them to better plan for assessments related to supervisory work by eliminating annual fluctuation that occurred under the prior system. OTS ceased billing for regularly scheduled savings and loan holding company examinations and will continue to phase in the new assessment system over the remainder of its first year of implementation. –

To further reduce burden, the federal financial regulatory agencies began a multi-year effort in 2003 to obtain suggestions from the industry and public on more streamlined and less burdensome ways to regulate. The interagency Economic Growth and Regulatory Paperwork Reduction Act (EGRPRA) project team reviews regulations for unnecessary burden. In November 2004, OTS published an interim final rule, pursuant to EGRPRA, which will reduce regulatory burden on savings associations by updating and revising various application and reporting requirements. Under the EGRPRA rule, OTS is: (1) modifying savings association branch and agency office application and notice requirements; (2) revising the publication and public comment procedures for various OTS applications and notices; and (3) revising the agency's procedures for formal and informal meetings held in connection with OTS applications.

Effective October 1, 2004, OTS reduced regulatory burden by modifying the existing "small institution" definition for savings associations under the Community Reinvestment Act (CRA). The new rule increased the "small institution" threshold for savings associations from \$250 million to \$1 billion and permits institutions qualifying as small savings associations to benefit from streamlined CRA examinations as well as reduced data collection and reporting burdens under the CRA. Approximately 190 institutions are affected by the rule change and are no longer required to report CRA data.

OTS released a CRA streamlining proposal in November 2004 to solicit comments on whether the definition of "community development" should be expanded to include community services targeted to individuals in rural areas and activities that revitalize or stabilize rural areas. The proposal also solicits comments on reducing regulatory burden by providing flexibility to large retail savings associations to focus CRA efforts on CRA needs of the communities they serve.

Application processing times have stayed within targeted levels as procedures are streamlined and delegated. OTS periodically reviews the outstanding delegation of applications to the regional offices to determine whether additional applications may be delegated.

FY 2006 PERFORMANCE PLAN

FY 2006 Proposed Program Performance

The FY 2006 performance targets that remain have been established at the same level planned for FY 2005.

STRATEGIC GOAL 3: Fair access to financial services and fair treatment of thrift customers.

Established in 1993, the mission of OTS's Community Affairs Program is to support the thrift industry's efforts to meet the convenience and needs of the communities they are chartered to serve, meet their CRA obligations, and provide safe and sound loans, investments and financial services for low and moderate income individuals and communities, and other areas of greatest need. OTS's Community Affairs staff works with savings associations, community-based organizations, government officials and others to promote partnerships and other initiatives with savings associations at the local level to address and respond to community and economic development needs. In addition, OTS promotes industry adoption of comprehensive compliance management programs and encourages associations to strategically develop the diverse opportunities presented by the communities they are chartered to serve.

EVALUATION OF FY 2005 PERFORMANCE PLAN

Evaluation of the FY 2005 Program Performance Compared to FY 2004

OTS strives to ensure that savings associations effectively comply with consumer protection laws and regulations. Using the comprehensive exam procedures, compliance with consumer protection laws is reviewed at more frequent intervals, which provides a more effective examination process. Through the application process, OTS ensures that savings associations have management programs that are appropriate to the compliance risks associated with their business plans and are responsive to the credit needs of the community they are chartered to serve.

Through CRA evaluations, outreach, and other means, OTS will continue to identify competitive initiatives and strategies and provide information about best practices, investment authority, and subsidy resources. OTS will also offer technical assistance or sponsor training opportunities that support responsive community reinvestment and the prudent use of an association's community development investment authority.

FY 2006 PERFORMANCE PLAN

FY 2006 Proposed Program Performance

The FY 2006 performance targets that remain have been established at the same level planned for FY 2005.

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

OTS interacts with the savings associations it regulates through the application, examination, and supervision process and with the customers these associations serve. In compliance with Executive Order 12862, OTS developed customer service standards for the Examination process, Congressional Correspondence, Interpretive Opinions, Consumer Assistance, and Applications Processing.

OTS strives to maintain a workforce that is professional and well trained to regulate the thrift industry and to deal with the public in a professional, informed and responsive manner. OTS provides the public with statistical reports, securities filings of OTS registrants, chartering records, and other public information. OTS assists savings association customers with inquiries and complaints concerning savings associations.

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

EVALUATION OF FY 2005 PERFORMANCE PLAN

Evaluation of the FY 2005 Program Performance Compared to FY 2004

OTS is committed to financial management excellence. OTS financial management systems provide timely, useful, auditable information that promote the incorporation of financial and performance measurement in the planning, budgeting, and reporting processes. OTS has received consecutive unqualified opinions on its financial statements since being formed in 1989. During 2003, program managers received online access to financial and budgetary information allowing them to monitor performance. During 2004 managers used this online financial and budgetary information for operational evaluation and decision-making. Quarterly performance results are provided to management.

OTS will continue to ensure accuracy and timeliness of financial data reported to Treasury. The Bureau of Public Debt's Administrative Resource Center (ARC) services OTS's financial operations and works closely with OTS staff to ensure the accuracy and integrity of OTS's financial data. ARC personnel operate and maintain the system, ensuring reliable and accurate support.

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During 2004, OTS continued to cross-train its examiners to fully accredit them in both the safety and soundness and compliance disciplines. Many OTS examiners already hold dual accreditation, and cross-training and full accreditation in both disciplines cultivates a highly skilled workforce that can adapt as the industry evolves. OTS will continue to provide specialized training, rigorous accreditation and professional development programs, and other supervisory tools to ensure that our staff is capably equipped to supervise a dynamic and growing industry. In 2005, OTS will continue to refine its focus on consolidated supervision of complex conglomerates, with special emphasis on the operational, financial, and reputational risk posed by corporate structures that are managed by business line rather than legal entity.

FY 2006 PERFORMANCE PLAN

FY 2006 Proposed Program Performance:

The FY 2006 performance targets that remain have been established at the same level planned for FY 2005.

SUMMARY OF PROGRAM RESOURCES AND PERFORMANCE

In the first quarter of FY 2005, Treasury launched a process to streamline its current set of performance measures. Its purpose was to increase the value of the information provided to stakeholders, respond to congressional requests, focus priorities, and reduce administrative burden. Results of the process indicated a 60-70% reduction in the number of performance measures overall at the Treasury level. At the bureau level, measures that are no longer included in the budget submission are classified as "discontinued" and are indicated as such. The end result will be apparent in next year's performance report and budget submission, in the form of a more concise explanation of program performance relative to prior years.

(Dollars in Thousands)							
SUPERVISION BUDGET ACTIVITY	FY 2001	FY 2002	FY 2003	FY 2004		FY 2005	FY 2006
	Actual	Actual	Actual	Target	Actual	Budget	Estimate
Total Operating Level	\$162,400	\$155,700	\$153,659	\$177,900	\$178,713	\$187,900	\$192,598
Total FTE	NA	NA	912	913	886	920	920
Treasury Goal: Preserve the integrity of financial systems (F3)							
Treasury Objective: Increase the Reliability of the U.S. Financial System (F3C)							
Direct Resources (<i>Salaries and Expense Account</i>)	\$142,900	\$137,900	\$138,293	\$160,110	\$160,842	\$169,110	\$173,338
FTE	NA	NA	821	822	797	828	828
OTS Strategic Goal: A Safe and Sound Thrift Industry							
Performance Goal: Ensure that OTS-regulated Thrift Institutions Operate in a Safe and Sound Manner through Effective Supervision (F3C)							
1. Percent of thrifts with composite CAMELS ratings of 1 or 2 (Oe)	NA	NA	93% *	90%	93%	90%	90%
2. Percent of thrifts issued formal or informal enforcement actions within 60 days after receiving an unsatisfactory safety and soundness or compliance examination rating, unless a waiver is appropriate (Ot)	100%	100%	100%	100%	100%	Discontinued	Discontinued

* The 2003 success rate for this measure has been changed from 92% to 93%. The calculation of the measure was modified slightly to only include thrifts that have been rated rather than all thrifts. Minor updates to the 2003 data occurred after the results were initially published.

Performance Goal: Maintain a Thrift Industry that is Sufficiently Capitalized							
1. Percent of thrifts that are well capitalized (Oe) (Well capitalized thrifts have capital higher than adequately capitalized thrifts.)	NA	NA	99.5%	95%	99.8%	95%	95%
2. Percent of thrifts adequately capitalized or operating under an approved Capital Plan or PCA Directive if capital-deficient, unless the thrift has been undercapitalized for less than 150 days, or has received prior approval by the Deputy Director for exceeding this timeframe (Ot)	100%	100%	100%	100%	100%	Discontinued	Discontinued
Performance Goal: Conduct Examination in an Efficient and Effective Manner.							
1. Percent of safety and soundness exams started as scheduled. (Ot)	NA	NA	92%	90%	94%	90%	90%
2. Percent of safety and soundness reports of exam mailed to thrift institutions within targeted timeframes after completion of fieldwork (Ot)	NA	NA	91%	80%	84%	Discontinued	Discontinued
OTS Strategic Goal: Fair Access to Financial Services and Fair Treatment of Thrift Customers.							
Performance Goal: Maintain a Thrift Industry that Effectively Complies with Compliance Laws and Regulations							
1. Percent of thrifts with compliance examination ratings of 1 or 2. (Oe)	NA	NA	94% *	90%	94%	90%	90%
Performance Goal: Educate Industry Representatives on Community Development Issues that Promote Community Reinvestments and Increased Access to Financial Services							
1. Frequency of technical assistance or training events provided to industry executives annually regarding community reinvestment responsibilities and opportunities (Ot)	NA	NA	70	36	76	Discontinued	Discontinued

* The 2003 success rate for this measure has been changed from 93% to 94%. The calculation of the measure was modified slightly to only include thrifts that have been rated rather than all thrifts. Minor updates to the 2003 data occurred after the results were initially published.

OTS Strategic Goal: A Professional and Motivated Workforce that Provides Exceptional Service to its Customers and Supports Achievement of OTS Business Goals.							
Performance Goal: Meet Levels of Customer Service							
1. Percent of complaints involving OTS-regulated thrift institutions answered within 60 days (Ot)	NA	NA	72%	80%	82%	Discontinued	Discontinued
2. Percent of Congressional inquiries forwarding complaints involving OTS-regulated institutions answered within 30 business days (Ot)	NA	NA	80%	80%	86%	Discontinued	Discontinued
3. Percent of written External Interpretive Opinions processed within 60 or 90 days as specified in the External Interpretive Opinions Customer Service Plan (Ot)	NA	NA	100%	80%	100%	Discontinued	Discontinued
Performance Goal: Meet Examination Objectives and Achieve Customer Satisfaction with Examination Process							
1. Percent of OTS-regulated thrifts provided a customer service feedback form (Ot)	NA	NA	100%	100%	100%	Discontinued	Discontinued
2. Percent of survey respondents that indicated the examiners took time at the start of the examination to gain an understanding of the thrift's business strategy and operating philosophy (Ot)	NA	NA	98%	80%	99%	Discontinued	Discontinued
3. Percent of survey respondents that indicated examiners maintained adequate communications with management during the examination (M)	NA	NA	98%	80%	98%	Discontinued	Discontinued
4. Percent of survey respondents that indicated the tone and content of the Report of Examination was consistent with board or management exit meeting (M)	NA	NA	98%	80%	97%	Discontinued	Discontinued
5. Percent of survey respondents that indicated the examination was of value to their organization (M)	NA	NA	98%	80%	98%	Discontinued	Discontinued
6. Percent of survey respondents that indicated satisfaction with the accuracy, timeliness, and manner in which OTS offices interact with them (M)	NA	NA	100%	80%	96%	Discontinued	Discontinued

Performance Goal: Strategically manage the OTS workforce by aligning human capital strategies to the OTS mission, guiding principles, goals, and objectives.							
1. Percent of regulatory staff receiving at least 30 hours of training designed to keep them current in regulatory issues and industry developments. (M)	69%	28%	66%	60%	60%	Discontinued	Discontinued
Performance Goal: Maintain accurate and timely financial information to support operating, budget, and policy decisions.							
1. Percent of months during the fiscal year that OTS achieved an overall green rating on Treasury's Financial 3-Day Close Data Quality Scorecard. (M)	NA	NA	NA	80%	100%	Discontinued	Discontinued
Treasury Goal: Promote Prosperous U.S. and World Economies (E1)							
Treasury Objective: Provide a Flexible Legal and Regulatory Framework (E1B)							
Direct Resources (Salaries and Expense Account)	\$19,500	\$17,800	15,366	\$17,790	\$17,871	\$18,790	\$19,260
FTE	NA	NA	91	91	89	92	92
OTS Strategic Goal: A Flexible Legal and Regulatory Framework that Enables the Thrift Industry to Provide a Full Competitive Array of Financial Services.							
Performance Goal: Minimize Financial Regulatory Burden on Thrifts							
1. Difference between the inflation rate and the OTS assessment rate increase. (E)	NA	NA	0%	0%	0%	0%	0%
Performance Goal: Process Applications in a Timely Manner							
1. Percent of applications processed within timeframes (Ot)	NA	NA	98%	95%	97%	Discontinued	Discontinued
Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Customer Satisfaction Measure * Actual Performance reported after close of fiscal year							

SECTION 4 – SUPPORTING MATERIALS

MAJOR MANAGEMENT CHALLENGES AND HIGH RISK AREAS

GAO and OIG have not identified any high-level management challenges applicable to OTS.

PROGRAM ASSESSMENT RATING TOOL REPORT

At the end of FY 2002, the Office of Management and Budget reviewed OTS’s supervision program using the Program Assessment Rating Tool. The OTS received an “effective” rating and one of the highest scores issued by OMB during this period.

PARTed Program: Supervision of thrift industry	Actions
<p><u>PART Recommendation 1:</u></p> <p>Federal banking regulatory agencies, including the OTS, the OCC, the NCUA and the FDIC, should work together to align outcome goals and related measures to allow for greater comparison of program performance in the industry.</p> <p><u>PART Recommendation 2:</u></p> <p>OTS should evaluate the efficiency and effectiveness of a single examination for both Safety and Soundness and Compliance functions.</p> <p><u>PART Recommendation 3:</u></p> <p>OTS should take steps to examine long-term systemic risks in the industry.</p>	<p><u>Actions Taken:</u></p> <p>OCC and OTS worked together throughout the strategic and performance planning efforts to ensure that their strategic goals were closely aligned. The banking regulatory agencies share their strategic and performance plans with each other and meet quarterly to discuss strategic and performance planning.</p> <p><u>Actions Planned and Timeframes:</u></p> <p>OTS will continue to work with the OCC to ensure that strategic goals are closely aligned. OTS will continue to share its strategic and performance plans with the other banking regulatory agencies and meet to discuss strategic and performance planning.</p> <p><u>Actions Taken:</u></p> <p>Based on feedback received over the past two years, the vast majority of the industry prefers the efficiency and effectiveness of a joint examination. OTS eliminated much of the redundancy of two separate exams. OTS will fulfill its statutory examination responsibilities with less FTEs as a result of this change.</p> <p><u>Actions Planned and Timeframes:</u></p> <p>No further actions are planned.</p> <p><u>Actions Taken</u></p> <p>During the 2004 strategic planning process, systemic risks were examined and addressed in the Plan.</p> <p><u>Actions Planned and Timeframe</u></p> <p>OTS will continue to examine and address systemic risks.</p>

CROSS-CUTTING COORDINATION EFFORTS

Supervision of Thrift Industry Budget Activity

Performance Goal:	Ensure that OTS-regulated thrift institutions operate in a safe and sound manner through effective supervision.
Performance Goal:	Maintain a thrift industry that is sufficiently capitalized.
Performance Goal	Conduct examinations in an efficient and effective manner.
Performance Goal	Minimize financial regulatory burden on thrifts.
Performance Goal:	Maintain a thrift industry that effectively complies with compliance laws and regulations.

To accomplish these performance goals, OTS works closely with the four other federal banking agencies: the Board of Governors of the Federal Reserve System (FRB), the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), and the National Credit Union Administration (NCUA) to achieve consistency in policy and regulation and to address common issues. Our goal is to coordinate supervisory activities and knowledge to limit overlapping regulatory efforts, and to identify regulatory gaps that may exist across functionally regulated business sectors. We have also expanded our regulatory contacts abroad to ensure effective supervision of savings and loan holding company structures that maintain significant operations in foreign markets.

OTS's regional offices have working relationships with insurance and securities regulators in states where these companies conduct operations. Our coordination activities involve meetings, regular communications, and joint activities and programs, often through various supervisory coordinating entities such as the National Association of Insurance Commissioners (NAIC), the National Association of Securities Dealers (NASD), and the North American Securities Administrators Association (NASAA).

OTS and the federal banking agencies work closely on Patriot Act-related working groups and regulatory projects. Cooperation between the federal banking agencies on Bank Secrecy Act (BSA) /Anti-money Laundering matters is consistent and long-standing. OTS cooperates with FinCEN and law enforcement agencies when matters of mutual interest are uncovered in OTS examinations or reviews. OTS and FinCEN have worked together to investigate and remedy BSA violations through the issuance of parallel enforcement actions.

To enhance our supervisory effectiveness, OTS participates with the following groups.

1. **The Federal Financial Institutions Examination Council (FFIEC)**, composed of members of each of the five federal banking regulatory agencies, prescribes uniform principles, standards, and report formats for the examination of insured depository institutions. The FFIEC identifies emerging issues in the financial institutions industry and coordinates supervisory activities with other regulators and through the Conference of State Bank Supervisors (CSBS). OTS's Director, James E. Gilleran, began a two-year term as Chairman of the FFIEC on April 1, 2003.

2. **The Basel Committee on Banking Supervision** provides a forum for international cooperation on matters relating to supervision. OTS is actively seeking membership on the Basel Committee on par with the other Federal Banking Regulators. OTS attends the Basel Committee meetings and participates in key subcommittee meetings and working groups. The international community of financial services supervisors provides an excellent forum to share experiences and work cooperatively to develop innovative and effective supervisory guidance. Participation in these forums has been critical in understanding global trends that may impact or threaten savings associations or savings and loan holding companies.
3. **The Shared National Credit Program** performs a uniform credit review of financial institution loans that exceed \$20 million and are shared by three or more financial institutions. The four Federal banking agencies are members.
4. **The Financial and Banking Information Infrastructure Committee (FBIIC)** strives to improve the reliability and security of the U.S. financial system and to protect against disruption of critical information systems. The Treasury Department chairs FBIIC and works with the Department of Homeland Security and the Office of Cyberspace Security to secure the financial industry's critical infrastructure. Members of the FBIIC include the five banking agencies as well as other federal and state agencies that have regulatory responsibilities for financial services.
5. **The Bank Secrecy Act Advisory Group (BSAAG)** is a collection of representatives from law enforcement agencies, regulatory agencies, and the private sector and is charged with the responsibility of advising the Secretary of the Treasury on matters relating to the administration of the BSA.
6. **The Bank Fraud Working Group** consists of representatives from federal banking agencies and law enforcement agencies. The forum enables participants to share information and cooperate in identifying individuals engaged in fraud and trends involving fraudulent activities.
7. **The Government Performance and Results Act (GPRA) Interagency Working Group** shares best practices and discusses issues related to the common goals and objectives of the federal financial regulatory agencies. Members of the group include the five banking regulators, the Office of Federal Housing Enterprise Oversight (OFHEO), and the Securities Exchange Commission.
8. **Joint Forum** operates under the aegis of the Basel Committee on Banking Supervision and brings together supervisors from the banking, securities and insurance sectors. OTS participates in working groups of the Joint Forum.
9. **International Association of Insurance Supervisors (IAIS)** represents insurance supervisory authorities from around the globe. OTS has observer status with IAIS.

DETAIL OF FULL-TIME EQUIVALENT STAFF YEARS BY CATEGORY

Position Category	Actual FY 2004	Estimated		Change For FY 2006
		FY 2005	FY 2006	
Senior Executive.....	27	28	28	0
Attorney/Legal Clerk/Paralegal.....	34	34	34	0
Bank Examiner.....	505	531	531	0
Economist and Financial Analyst.....	47	54	54	0
Other Administration and Professional.....	198	204	204	0
Secretarial and Clerical.....	62	62	62	0
Crafts and Custodial.....	2	2	2	0
Part Time and Temporary.....	11	5	5	0
Total full-time equivalent positions 2/	886	920	920	0

DETAIL OF FULL-TIME EQUIVALENT POSITIONS BY GRADE

Grade	FY 2004 Actual	FY 2005 Estimated Operating Level	FY 2006 Budget Estimate	Change
Executive Level				
Presidential Appointment (EX-3)	1	1	1	0
Subtotal	1	1	1	0
TG-30	1	1	1	0
TG-29	2	2	2	0
TG-28	5	5	5	0
TG-27	0	0	0	0
TG-26	3	4	4	0
TG-25	15	15	15	0
TG-24	28	30	30	0
TG-23	25	29	29	0
TG-22	127	128	128	0
TG-21	128	145	145	0
TG-20	228	240	240	0
TG-19	26	27	27	0
TG-18	154	160	160	0
TG-17	3	2	2	0
TG-16	48	41	41	0
TG-15	5	6	6	0
TG-14	23	19	19	0
TG-13	7	9	9	0
TG-12	32	30	30	0
TG-11	5	4	4	0
TG-10	11	12	12	0
TG-9	0	0	0	0
TG-8	2	2	2	0
TG-7	3	3	3	0
TG-6	0	0	0	0
TG-5	3	4	4	0
TG-4	1	1	1	0
Subtotal	885	919	919	0
Total full-time equivalent positions	886	920	920	0

STANDARD CLASSIFICATION SCHEDULE				
Direct Obligations				
(Dollars in Thousands)				
Object Class	FY 2004 Actual	FY 2005 Proposed Operating Level	FY 2006 Budget Estimate	Increases/ Decreases for FY 2006
Object Classification				
Personnel compensation:				
Permanent positions.....	89,963	95,826	98,222	2,396
Positions other than permanent.....	934	1,762	1,806	44
Other personnel compensation.....	-	-	-	-
Special personal services payments.....	-	-	-	-
Total personnel compensation.....	90,897	97,588	100,028	2,440
Civilian personnel benefits.....	50,080	48,843	50,064	1,221
Benefits to former personnel.....	1,495	1,510	1,548	38
Travel and transportation of persons.....	10,182	11,444	11,730	286
Transportation of things.....	206	240	246	6
Rents, communications and utilities:				
Rental payments to GSA.....	-	-	-	-
Rental payments to others.....	7,026	6,404	6,564	160
Other rents, communications and utilities.....	3,852	4,724	4,842	118
Printing and Reproduction	105	153	157	4
Other services:				
Advisory & assistance services.....	2,553	3,600	3,690	90
Other services.....	680	836	857	21
Purchase of goods/services from Govt. accts.....	2,965	2,900	2,973	72
Operation & maintenance of facilities.....	4,687	4,877	5,009	122
Research & development contracts.....	-	-	-	-
Medical care.....	-	-	-	-
Operation & maintenance of equipment.....	-	-	-	-
Subsistence & support of persons.....	-	-	-	-
Supplies and materials.....	642	875	897	22
Equipment.....	2,118	2,228	2,284	56
Lands and structures.....	1,225	1,668	1,710	42
Insurance claims and indemnities.....	-	-	-	-
Confidential expenditures.....	-	-	-	-
Total obligations.....	178,713	187,900	192,598	4,698
Unobligated balance available, SOY.....				
Unobligated balance available, EOY.....				
Unobligated balance expiring.....				
Total enacted appropriations and budget estimate	178,713	187,900	192,598	4,698

NOTE: Include carry over balances of unexpired accounts.

VERIFICATION AND VALIDATION OF DATA AND PERFORMANCE MEASUREMENT

The following list presents the definitions and verification and validation information for each performance measure that supports the OTS's annual performance plan and as reported in the OTS's Summary of Program Resources and Performance Tables. Based on the verification and validation information, OTS rated each measure's data as having "Reasonable Accuracy" (judged to be sufficiently accurate for program management and performance reporting purposes).

SUPERVISION OF THRIFT INSTITUTIONS BUDGET ACTIVITY

All OTS performance measures relate to OTS's supervision activity. Targeted success rates are determined after analyzing mission priorities, budget constraints, past success rates, and external factors. OTS's automated systems assist with the generation of many results. These systems are routinely validated. A "contact person" is assigned to each OTS performance measure and is responsible for calculating, verifying, and validating the level of success reported. The contact person is responsible for keeping auditable records. Quarterly press releases report several performance measures contained in the Plan and these measures are verified and validated before each press release. The programs, operations, and functions supporting the OTS mission are evaluated and assessed annually to comply with the Federal Managers' Financial Integrity Act (FMFIA) standards. The Assistant Managing Director, Examinations and Supervision – Operations and the Assistant Managing Director, Examinations and Supervision - Policy evaluate the effectiveness of OTS's examination and supervision process in identifying and addressing industry risks. OTS has received consecutive unqualified opinions on its financial statements since 1989. Currently, no material weaknesses or instances of nonconformance are outstanding.

Data Frequency: OTS performance measure data is collected, analyzed and distributed to managers quarterly.

SUPERVISION BUDGET ACTIVITY

Treasury Strategic Goal: Preserve the integrity of financial systems.

Performance Goal: Ensure that OTS-regulated thrift institutions operate in a safe and sound manner through effective supervision.

Performance Measure 1: Percent of thrifts with composite CAMELS ratings of 1 or 2.

Definition: On December 9, 1996, the Federal Financial Institutions Examination Council (FFIEC) adopted the CAMELS rating system as the internal rating system to be used by the federal and state regulators for assessing the safety and soundness of financial institutions on a uniform basis. The CAMELS rating system puts increased emphasis on the quality of risk management practices. "CAMELS" stands for Capital adequacy, Asset quality, Management, Earnings, Liquidity, and Sensitivity to market risk. OTS assigns a composite CAMELS rating to savings associations at each examination and may adjust the composite rating between examinations if the

association's overall condition has changed from the prior examination. New savings associations are typically not assigned a composite CAMELS rating until the first examination. OTS adjusts the level of supervisory resources devoted to an association based on the overall risk as reflected in the composite rating.

How Data is Captured: Composite CAMELS ratings are stored in and retrieved from the online Examination Data System (EDS). OTS calculates this measure by dividing the number of savings associations having a composite CAMELS rating of 1 or 2 by the total number of OTS-regulated savings associations that have been assigned a composite CAMELS rating.

Data Validation and Verification: Summary and detail reporting of CAMELS ratings are available online through the EDS system and are provided to each association at the conclusion of an exam. The composite rating is used semi-annually in the assessment process. The Assistant Managing Director, Examinations and Supervision – Operations continuously monitors the status of exam ratings. Quarterly press releases provide a summary of the thrift industry's CAMELS ratings to the public.

Data Accuracy: Reasonable Accuracy

Data Frequency: Quarterly

Performance Measure 2: Percent of thrifts issued formal or informal enforcement actions within 60 days after receiving an unsatisfactory safety and soundness or compliance examination rating, unless a waiver is appropriate. (Discontinued)

Definition: OTS employs its enforcement powers to advance the agency's supervisory mission of maintaining a safe and sound thrift industry that complies with applicable laws and regulations. Most new enforcement cases focus on correcting unsafe and unsound practices or significant compliance issues in savings associations before they result in the association becoming undercapitalized or the severity of the association's noncompliance creates significant legal or financial exposure.

How Data is Captured: To compute this measure, OTS uses a management report prepared monthly with information taken from the Regulatory Action Data (RAD) system, which tracks savings associations that are rated 4 or 5 in safety and soundness or compliance and also tracks whether these 4 or 5 rated associations have received an enforcement action or a waiver from enforcement action within 60 days of the examination report. OTS calculates this measure by dividing the number of associations that have received a formal or informal enforcement action or had such action waived during the specified time period by the number of savings associations that should have received a formal or informal enforcement action or had such action waived, during the specified time period.

Data Validation and Verification: The Assistant Managing Director, Examinations and Supervision – Operations monitors and validates that enforcement actions occur within the targeted timeframe.

Data Accuracy: Reasonable Accuracy

Data Frequency: Quarterly

Performance Goal: Maintain a thrift industry that is sufficiently capitalized.

Performance Measure 1: Percent of thrifts that are well capitalized.

Definition: Capital absorbs losses, promotes public confidence, and provides protection to depositors and the FDIC insurance funds. It provides a financial cushion that can allow a savings association to continue operating during periods of loss or other adverse conditions. An objective of OTS's capital adequacy program is to determine the quality and sufficiency of capital. Savings associations that are classified as being well capitalized must have a total risk-based ratio of 10% or above; they must have a Tier 1 (Core) risk-based ratio of 6% or above; and a Tier 1 (Core) leverage ratio of 5% or above. They also must not be subject to a capital directive or capital-related cease and desist order.

How Data is Captured: Prompt Corrective Action (PCA) ratings are stored in the Examination Data System (EDS) and can also be found in the Thrift Overview Report. OTS calculates this measure by dividing the number of savings associations that are well capitalized by the total number of OTS-regulated institutions.

Data Validation and Verification: The Assistant Managing Director, Examinations and Supervision – Operations monitors and validates the capital measures. Quarterly press releases provide capital measures to the public.

Data Accuracy: Reasonable Accuracy

Data Frequency: Quarterly

Performance Measure 2: Percent of thrifts adequately capitalized or operating under an approved Capital Plan or PCA Directive if capital-deficient, unless the thrift has been undercapitalized for less than 150 days, or has received prior approval by the Deputy Director for exceeding this timeframe. (Discontinued)

Definition: OTS has adopted a measure that addresses both of the objectives of Prompt Corrective Action (PCA): 1) to recapitalize undercapitalized savings associations at the least cost to the deposit insurance fund; and 2) to do it "promptly." The statute requires that associations 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 savings association 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 association does not fail and is recapitalized, even if the 150-day time frame is exceeded.

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How Data is Captured: PCA ratings are stored in the Examination Data System (EDS) and can also be found in the Thrift Overview Report. OTS calculates this measure by adding a) the total number of savings associations that are at least adequately capitalized, b) the number that are under a PCA directive or have been recapitalized to the adequately capitalized level, and c) the number of savings associations 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 Validation and Verification: The Assistant Managing Director, Examinations and Supervision – Operations monitors and validates the capital measures. Quarterly press releases provide capital measures to the public.

Data Accuracy: Reasonable Accuracy

Data Frequency: Quarterly

Performance Goal: Conduct examinations in an efficient and effective manner.

Performance Measure 1: Percent of safety and soundness exams started as scheduled.

Definition: OTS performs safety and soundness examinations of its regulated savings associations consistent with the requirements in the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) as amended by the Riegle Community Development and Regulatory Improvement Act of 1994.

How Data is Captured: When an savings association is examined, OTS staff enters into the Examination Data System (EDS) the examination type, examination beginning and completion dates, report of examination mail date, and CAMELS or equivalent ratings. The percentage success rate for this measure is calculated by dividing the number of examinations that were started by the number of examinations that were scheduled to be started during the review period.

Data Validation and Verification: Performance Tracking Reports are generated monthly and reviewed by OTS's Deputy Director and all four Regional Directors. Any examination or savings association that falls outside of the specified guidelines for the examination time frame or duration is identified. When necessary, management determines why standards are not being met and will initiate steps to improve performance. The Assistant Managing Director, Examinations and Supervision – Operations monitors and validates examination processing data.

Data Accuracy: Reasonable Accuracy

Data Frequency: Quarterly

Performance Measure 2: Percent of safety and soundness reports of exam mailed to thrifts within targeted timeframes after completion of fieldwork. (Discontinued)

Definition: During the post examination process, OTS finalizes and mails the report of examination (ROE) to the savings association. To ensure a timely post-examination process, it is our objective to mail the report of examination within 30 days after completion of fieldwork to institutions rated 1 or 2, and within 45 days for those rated 3, 4 or 5. OTS staff often meets with the savings association's board of directors after delivery of the ROE to discuss findings and recommendations. Delivery of the ROE indicates the completion of the post-exam period and will trigger follow-up, measurement and off-site monitoring processes.

How Data is Captured: Data is captured using the Examination Data System described above. OTS calculates this measure by dividing the number of safety and soundness Reports of Examination that were mailed within the stated timeframes by the total number of safety and soundness Reports of Examination that were scheduled to be mailed.

Data Validation and Verification: Performance Tracking Reports are generated monthly and reviewed by OTS's Deputy Director and all four Regional Directors. Any examination or savings association that falls outside of the specified guidelines for the examination time frame or duration is identified. When necessary, management determines why standards are not being met and will initiate steps to improve performance. The Assistant Managing Director, Examinations and Supervision – Operations monitors and validates examination processing data.

Data Accuracy: Reasonable Accuracy

Data Frequency: Quarterly

Performance Goal: Maintain a thrift industry that effectively complies with compliance laws and regulations.

Performance Measure 1: Percent of thrifts with compliance examination ratings of 1 or 2.

Definition: A uniform, interagency compliance rating system was first approved by the Federal Financial Institutions Examination Council (FFIEC) in 1980. The FFIEC rating system was designed to reflect, in a comprehensive and uniform fashion, the nature and extent of an association's compliance with civil rights and consumer protection statutes and regulations. The OTS's implementation expands that coverage to encompass compliance with a number of other public interest regulations. Among these are the Bank Secrecy Act, Bank Protection Act, economic sanctions, and advertising. The Compliance Rating System is based upon a scale of 1 through 5 in increasing order of supervisory concern. A rating of 1 indicates excellence, while a rating of 5 represents the lowest, most critically deficient level of performance and the highest level of supervisory concern.

Office of Thrift Supervision

How Data is Captured: Compliance examination ratings are stored in the EDS system. OTS calculates this measure by dividing the number of OTS-regulated savings associations that received a compliance examination rating of 1 or 2 on their most recent examination by the total number of OTS-regulated savings associations that have been assigned a compliance examination rating.

Data Validation and Verification: Summary and detail reporting of compliance ratings are available online through the EDS system. The Assistant Managing Director, Examinations and Supervision – Operations monitors the status of compliance exam ratings.

Data Accuracy: Reasonable Accuracy

Data Frequency: Quarterly

Performance Goal: Educate industry representatives on community development issues that promote community reinvestments and increased access to financial services.

Performance Measure 1: Frequency of technical assistance or training events provided to industry executives annually regarding community reinvestment responsibilities and opportunities. (Discontinued)

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 minority owned savings associations and each institution that receives a “Needs to Improve” or lower CRA rating. OTS will also actively work with those savings associations that desire our assistance. In addition, OTS Community Affairs and Compliance Policy staff will provide industry training on community reinvestment responsibilities and opportunities.

How Data is Captured: OTS staff manually tracks the number of technical assistance occurrences or training events that OTS provides to industry executives annually regarding community reinvestment responsibilities and opportunities. OTS calculates this measure by counting the number of technical assistance or training events.

Data Validation and Verification: The Assistant Managing Director, Examinations and Supervision – Policy oversees the frequency of technical assistance and training events.

Data Accuracy: Reasonable Accuracy

Data Frequency: Quarterly

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Performance Goal: Meet levels of customer service

Performance Measure 1: Percent of complaints involving OTS-regulated thrift institutions answered within 60 days (Discontinued)

Definition: OTS consumer affairs staff in the four regional offices handles most complaints. All complaints are reviewed to ensure compliance with federal consumer protection laws and regulations and to identify any institution conduct that warrants further supervisory scrutiny. Complaints alleging discrimination in housing finance that are covered by the Fair Housing Act are also shared with the U. S. Department of Housing and Urban Development (HUD).

How Data is Captured: The Consumer Complaints System tracks the receipt and processing times for complaints. OTS calculates this measure by using the processing time for each complaint as calculated by the Consumer Complaint System and determining the percentage of complaints that are answered within the time period established by the performance standard.

Data Validation and Verification: Summary and detail reports are available online through the Consumer Complaints system. The Assistant Managing Director, Examinations and Supervision – Policy and the Regional Directors monitor the processing of consumer complaints.

Data Accuracy: Reasonable Accuracy

Data Frequency: Quarterly

Performance Measure 2: Percent of Congressional inquiries forwarding complaints involving OTS-regulated institutions answered within 30 business days. (Discontinued)

Definition: Constituent services, Congressional committee and document requests have different customer-imposed deadlines. OTS staff strives to meet those deadlines. The OTS is committed to providing timely responses to Congressional correspondence.

How Data is Captured: Congressional inquiries are tracked using the Congressional Affairs Tracking System. OTS calculates this measure by dividing the number of Congressional inquiries involving OTS-regulated institutions that were answered within 30 business days by the total number of Congressional inquiries involving OTS-regulated institutions.

Data Validation and Verification: The Office of External Affairs validates and verifies the processing of Congressional inquiries.

Data Accuracy: Reasonable Accuracy

Data Frequency: Quarterly

Performance Measure 3: Percent of written External Interpretive Opinions processed within 60 or 90 days as specified in the External Interpretive Opinions Customer Service Plan. (Discontinued)

Definition: Providing interpretive guidance to the industry is an important OTS function. OTS receives written requests for interpretation of its regulations and laws.

How Data is Captured: The Office of Chief Counsel opinions are tracked using an Access database tracking system. OTS calculates this measure by dividing the number of External Interpretive Opinions processed within the appropriate timeframe by the total number of requests for External Interpretive Opinions due within that timeframe.

Data Validation and Verification: The Chief Counsel monitors the processing of opinions.

Data Accuracy: Reasonable Accuracy

Data Frequency: Quarterly

Performance Goal: Meet examination objectives and achieve customer satisfaction with examination process.

Performance Measure 1: Percent of OTS-regulated thrifts provided a customer service feedback form. (Discontinued)

Performance Measure 2: Percent of survey respondents that indicated the examiners took time at the start of the examination to gain an understanding of the thrift's business strategy and operating philosophy. (Discontinued)

Performance Measure 3: Percent of survey respondents that indicated examiners maintained adequate communications with management during the examination. (Discontinued)

Performance Measure 4: Percent of survey respondents that indicated the tone and content of the Report of Examination was consistent with the board or management exit meeting. (Discontinued)

Performance Measure 5: Percent of survey respondents that indicated the examination was of value to their organization. (Discontinued)

Performance Measure 6: Percent of survey respondents that indicated satisfaction with the accuracy, timeliness, and manner in which OTS offices interact with them. (Discontinued)

Definition: Savings associations are OTS's main customers. Savings associations are provided an opportunity annually to comment on OTS's examination process and on its customer service.

How the Data is Captured: OTS distributes the Annual Thrift Satisfaction Survey to every active OTS-regulated savings association that is in our institution database. Associations are permitted to respond by completing the form online through the Internet or by returning a paper survey to OTS. OTS calculates the first measure by dividing the number of OTS-regulated savings associations that are provided

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with the Annual Thrift Satisfaction Survey by the total number of OTS-regulated savings associations. Data for the other five measures are captured by recording the responses to the specified question on the Annual Thrift Satisfaction Survey. OTS calculates measures 2-6 by dividing the number of positive survey responses to each question by the total number of respondents.

Data Validation and Verification: The Director and Managing Directors review the results of the Annual Survey. A CEO letter is sent to the thrift industry discussing the results.

Data Accuracy: Reasonable Accuracy

Data Frequency: Annually

Performance Goal: Strategically manage the OTS workforce by aligning human capital strategies to the OTS mission, guiding principles, goals, and objectives.

Performance Measure 1: Percent of regulatory staff receiving at least 30 hours of training designed to keep them current in regulatory issues and industry developments. (Discontinued)

Definition: Another aspect of OTS's regulatory oversight is its focus on dynamic, needs-based employee training. OTS's 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 savings associations 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 management development programs, help keep employee skills at top levels.

How Data is Captured: A training management database allows OTS Professional Development staff to track the hours of training received by each OTS staff member. OTS calculates this measure by dividing the number of regulatory staff who received at least 30 hours of training by the total number of regulatory staff. OTS retrieves the raw data from the training database.

Data Accuracy: Reasonable Accuracy

Data Frequency: Annually

Performance Goal: Maintain accurate and timely financial information to support operating, budget, and policy decisions.

Performance Measure 1: Percent of months during the fiscal year that OTS achieved an overall green rating on Treasury's Financial 3-Day Close Data Quality Scorecard. (Discontinued)

Office of Thrift Supervision

Definition: OTS strives to provide accurate and timely financial data to Treasury within three business days after the end of each month. The data is also disseminated to OTS management and budget staff through an online system.

How Data is Captured: Treasury provides each bureau with a monthly Data Quality Scorecard containing an overall rating. Over fifteen data quality checks are performed and evaluated each month. OTS calculates this measure by dividing the number of months that OTS received an overall green rating by the total number of months that Treasury provided a rating during the fiscal year.

Data Validation and Verification: Treasury provides the rating and scorecard to the Chief Financial Officer. In addition, OTS financial statements are audited annually. OTS has received consecutive unqualified opinions on its financial statements since 1989.

Data Accuracy: Reasonable Accuracy

Data Frequency: Quarterly

Treasury Strategic Goal: Promote Prosperous U.S. and World Economies

Performance Goal: Minimize financial regulatory burden on thrifts

Performance Measure 1: Difference between the inflation rate and the OTS assessment rate increase.

Definition: OTS strives to increase assessment rates by no more than the rate of inflation. The inflation index is defined as the increase in the Gross Domestic Product Implicit Price Deflator.

How Data is Captured: OTS's current assessment rates are specified in OTS's Thrift Bulletins (the TB 48 series). OTS calculates this measure whenever a new assessment bulletin is issued. The percent increase in assessment rates is calculated and compared with the inflation rate as specified in OTS's Thrift Bulletins. The assessment rate increase is targeted to be less than or equal to the inflation rate.

Data Validation and Verification: The Chief Financial Officer monitors and initiates change to the assessment rates. Changes are finalized and announced through a Thrift Bulletin after a period of public comment.

Data Accuracy: Reasonable Accuracy

Data Frequency: Semi-Annually

Performance Goal: Process applications in a timely manner

Performance Measure 1: Percent of applications processed within timeframes. (Discontinued)

Definition: OTS regulations require savings associations to file an application before engaging in certain activities. Most applications are reviewed and acted upon at OTS's four regional offices. Certain complex transactions and those containing issues of policy or law are reviewed and acted upon in Washington. The mission of the applications program is to ensure that applications are processed within established timeframes and that decisions are consistent with current OTS regulations and policies. OTS will process applications to a decision within 60 days from the date they are deemed complete, except for applications eligible for "expedited treatment." Applications eligible for expedited treatment will be processed to a decision within 30 days from the date they are deemed complete. Decisions may be delayed beyond these timeframes if new potentially adverse information is received or the decision involves a question of law or policy.

How Data is Captured: The National Applications Tracking System (NATS) tracks the number of days required to process each application to completion. OTS calculates this measure by dividing the number of applications that were processed within the established timeframes by the total number of applications that should have been processed. Applications that contain an issue of law or policy (a rare occurrence) will not be included in the calculation.

Data Validation and Verification: The Assistant Managing Director, Examinations and Supervision – Operations monitors and validates application processing information that is captured in NATS.

Data Accuracy: Reasonable Accuracy

Data Frequency: Quarterly

OTS Summary of Capital Investments

OTS does not have major IT Capital Investments as defined for Exhibit 300.