



Testimony

of

Nicolas Retsinas, Director

Office of Thrift Supervision

concerning

**THE GOVERNMENT PERFORMANCE
AND RESULTS ACT**

before the

Committee on Banking and Financial Services

United States House of Representatives

July 29, 1997

Office of Thrift Supervision
Department of the Treasury

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**TESTIMONY ON THE GOVERNMENT
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I. Introduction

Thank you, Chairman Leach and members of the Committee, for inviting me to testify on the Government Performance and Results Act of 1993, commonly referred to as the Results Act. I appreciate the opportunity to address the Committee on this important subject.

We at the OTS view the Results Act as an excellent vehicle through which to operate as a more accountable regulator. As the custodians and protectors of insured deposits, the banking agencies have a unique fiduciary responsibility to America's depositors and taxpayers. The stability of bank deposits and the banking system as a whole has a profound impact on the overall health of America's financial system and, ultimately, the entire economy. The Results Act is an additional tool in our strategic planning process, in which we seek to do our job in a more focused, effective, and efficient way.

Given the similar goals and responsibilities of the various banking regulators, the strategic plans of those agencies should overlap; the basic thrust

should be the same, even though the terminology describing the agencies' strategic plans may vary. The Results Act helps to assure a consistent regulatory focus by the Federal banking agencies.

For decades, businesses have recognized the value of developing and implementing strategic plans to set organizational goals, and identifying methods and measurements to go about meeting them. Requiring uniform planning for government agencies should improve overall government performance and accountability, improve budgeting decisions, and improve public confidence in the Federal government.

II. The OTS's Planning Experience

A. A Systematic Approach to Planning

The OTS has an ongoing planning process that involves the active participation of managers throughout the organization. The Director, Executive Directors, program managers, and line managers are all involved in the systematic review and revision of OTS's goals and objectives, as well as the development of program performance measures. The OTS Plan includes many refinements that have been made over the years to reflect changing conditions and our improved supervisory goals, strategy, and methodology, which we continually reassess.

A good example of how this process has developed is the evolution of two of the goals discussed in the Plan. Since the OTS's inception in 1989, its foremost goal has been to effectively regulate the thrift industry. In 1989 the goal was to "[d]evelop efficiency and effectiveness in dealing with the supervisory challenges of the future required by the rapidly changing operating environment." In 1990 the

goal was changed to “[e]ffective supervision of the thrift industry,” and in 1991 the goal was further refined by adding language highlighting risk-focused regulation, which enables us to allocate our resources based on the level of supervisory risk posed by each institution.

By 1994 the goal had evolved to “[m]aintain and enhance a risk-focused, differential and proactive approach to supervision by encouraging safe and sound housing and other lending in those areas of greatest need.” In 1995 that language was split into two separate goals, one dealing with supervision (“maintain and enhance our risk-focused differential and proactive approach to the supervision of thrift institutions”) and the other with lending (“improve credit availability by encouraging safe and sound lending in those areas of greatest need”).

B. Current Conditions Affecting the OTS’s Strategic Plan

The OTS’s planning efforts have taken place in an era of uncertainty and change for financial services in America. As the Committee knows, the financial services industry, and the thrift industry in particular, have undergone radical and fundamental change in recent years. Advancing technology, financial globalization, industry consolidation, and rapidly changing markets have driven the evolution of our financial services sector for a generation.

We can be certain that, even after the remarkable changes we have already seen in our industry, more significant changes are inevitable. Despite its current strong financial position, the thrift industry is at a crossroads. Uncertainty exists on several fronts. Pressure from a wide array of financial competitors continues to mount; the very existence of the federal thrift charter is being debated by the Congress; and advances in technology, driven by the biennial doubling of

microprocessor productivity, are changing both how thrifts conduct their existing business operations, as well as their planning for new business opportunities. As the regulator of this dynamic industry, we must adjust and react accordingly.

Our ability to plan our future is also affected by the ongoing consolidation in the thrift industry and the diversification in its lending activities. Between 1993 and 1996, there have been only five thrift failures (only one in 1996), yet the number of OTS-regulated thrifts has declined 20 percent, with 335 fewer institutions, in that period. Recently, however, we have seen a marked upturn in interest in the Federal thrift charter. In the first half of this year, we have already received 25 applications to charter new Federal thrifts, more than we received in any of the last several years, including applications from three of the largest insurance companies in the country—State Farm, Transamerica, and Travelers. We have also seen an increased interest in the thrift charter from several credit unions.

Clearly, the number of institutions we regulate is a significant component of our planning process. If the recent interest in the Federal thrift charter continues, we could well experience a growth in the industry that would impact our future planning efforts.

Moreover, the continuing Congressional debate over the form and existence of the Federal thrift charter makes our planning process even more challenging. Modernization is a laudable goal, and the OTS favors charter modernization that would result in a “chartering up” for all federally insured depository institutions. Uncertainty about the outcome of this debate presents a particular challenge in fine tuning our strategic plan.

Underlying any planning scenario is the uncertainty of the nation's economy. The robust economic growth of recent years has brought an unusually long series of profitable quarterly returns to thrift institutions, but we must be ready to assess the health of the industry under whatever economic scenarios unfold.

In fact, the OTS must be ready to adjust its operations and procedures and respond to each of these uncertainties. If Congress determines that the agency should be consolidated with another regulator, the OTS must be prepared to do so. If financial modernization legislation is not likely to be enacted, the OTS must be prepared for possible future growth in the number of its regulated institutions and the assets it supervises. We must also be prepared to evaluate the impact of new and emerging business opportunities for thrift institutions and their affiliates.

Accordingly, we are focusing on being as flexible and responsive as possible, by making sure we keep abreast of, and where feasible, remain in front of, the tremendous changes sweeping over the industry. Our strategic plan was developed with recent experience in mind, while looking prudently at a potentially volatile future.

C. Summary of Major Provisions of OTS's Strategic Plan

Last year, the OTS participated in the Results Act pilot program conducted by the Treasury Department. The pilot exercise included submittal of a five-year Strategic Plan and a one-year Performance Plan. Our current Strategic Plan is a refinement of the initial planning process that required a hard look at our goals and the means we use to achieve them. This initial effort emphasized the need to do

more with less, while retaining flexibility to respond quickly to changes in technology and the thrift industry.

The OTS Plan has many features that take account of the unique variables affecting the agency and the industry we regulate. The first part of the plan discusses the status of the thrift industry and the OTS. Both have been through difficult times in the past, but are now leaner, more streamlined and healthy. The relative health of the current industry in some ways makes our job easier, but we cannot lose sight of the need to be prepared for less favorable economic conditions, if they should arise.

With this as a backdrop, and with the overriding purpose of the agency to preserve and maintain a safe and sound financial system, the OTS's mission statement has evolved to embrace the following two components:

- Effectively and efficiently supervise thrift institutions to maintain the safety and soundness and viability of the industry; and
- Support the industry's efforts to meet housing and other community credit and financial services needs.

These two simple statements of intent are the foundation for five major goals for the 1998-2002 period. The goals translate into 14 specific objectives, with 16 separate performance measures of our efforts to achieve those objectives.

1. The First Goal: Effective Supervision

The OTS's first major goal is to "maintain and enhance our risk-focused, differential and proactive approach to the supervision of thrift institutions." Through the examination process (including off-site monitoring activities), the OTS assesses the financial condition and risk profile of thrifts, and identifies violations of law and regulation and potential financial and economic problems. The examination process helps prevent the development or continuation of unsafe operating practices. It also helps us effect timely resolution of identified problems or weaknesses, including Community Reinvestment Act weaknesses.

Six critical objectives address the first goal:

- (1) Improve the value of examinations to thrift institution directors and management;
- (2) Improve the consistency of examinations;
- (3) Enhance examination documentation procedures;
- (4) Conduct safety and soundness, compliance, holding company, trust and electronic data processing examinations of all thrift institutions scheduled to receive such examinations;
- (5) Enhance industry awareness of the potential impact of the Year 2000 rollover on computer systems; and
- (6) Perform either on-site or off-site Year 2000 conversion reviews of all OTS-regulated thrift institutions and their outside data service providers by year-end 1998.

The plan describes a number of ways to measure our performance in meeting these objectives. For example, the first objective, “improve the value of examinations to thrift institution directors and management,” can be measured by the number of times thrifts rated the value of the examination process as being “satisfactory” or “better than satisfactory.”

Our success rate in meeting this objective is good. Overall, thrifts tell us in post-exam surveys that they have positive reactions about the way our exams are conducted. In 1996, 98% of thrifts said they liked the way our preliminary exam inquiries were delivered; 99% liked how quickly our material concerns were revealed; and 99% said our exam teams communicated their findings clearly. The first two of those figures are up from 95% and 93%, respectively, in 1995, and the third was also 99% in 1995.

2. The Second Goal: Credit Availability

The second major goal is to “improve credit availability by encouraging safe and sound lending in those areas of greatest need.” A key to achieving this goal was the creation in 1993 of the OTS Community Affairs program, which encourages institutions to support community development initiatives and fosters compliance with the community reinvestment and fair lending laws. The objectives of the Community Affairs program include acting as liaison between the OTS and the thrift industry, community groups, government agencies, and others on community development issues; providing education and technical assistance to examination staff and thrifts; and identifying and addressing regulatory barriers and safety and soundness issues related to community development activities.

3. The Third Goal: Ensuring Safety and Soundness Through Thrift Competitiveness

Our third major goal is to “enhance the competitiveness of the thrift industry to ensure its safety and soundness.” The OTS recently worked to resolve two key issues that threatened the viability of the thrift industry – the BIF/SAIF insurance premium disparity and the sharing of the annual interest obligation arising from the outstanding Financing Corporation (“FICO”) bonds. During 1997 and 1998, a key OTS objective is to support Congressional and Administration efforts to create a modern financial services charter for all insured depository institutions so that thrifts can continue to meet current and anticipated customer credit needs and retain the competitive edge necessary for safe and sound operation.

4. The Fourth Goal: Minimizing Regulatory Burden

The Plan’s fourth major goal is to “conduct operations as efficiently as possible to keep regulatory burdens on the thrift system at the minimum necessary level.” This reflects the OTS’s continuing focus on reducing regulatory burdens imposed on thrifts. The OTS is currently working on several initiatives to enhance the efficiency of the financial reporting process to reduce the reporting burden on the industry. We are also continuing to streamline our application process, and have significantly reduced the time it takes to process applications.

We also continually explore ways to fine tune and update our examination process. We have already significantly reduced the amount of on-site examination time; streamlined reporting requirements by moving to consolidated reports and eliminating separate reports for subsidiaries; and redesigned 60 percent of OTS

regulations to reduce burden and eliminate unnecessary restrictions that are not necessary to the safety and soundness of the industry.

5. The Fifth Goal: Customer Service

The fifth and final major goal identified in the OTS Plan is to “provide exceptional customer service to all major customer groups, including the OTS-regulated thrift institutions and members of the public that deal with those thrift institutions.” In order to meet our customer service goal (without compromising safety and soundness), the OTS has developed customer service standards for the examination process, congressional correspondence, interpretive opinions, public information, consumer assistance and corporate activities.¹ Every program with a published customer service plan sends a quarterly report to the OTS Ombudsman regarding progress in meeting its stated customer service standards. The Ombudsman reviews the information, meets with the appropriate office to review the data, and suggests ways to improve customer service.

D. Coordination and Consultation

In addition to the discussion of our five major goals, the Plan details our extensive efforts to consult with our customers (generally, thrifts and their customers) through the examination process and in other forums, and to maintain

¹ For example, under our Congressional Correspondence Customer Service Plan, Congressional correspondence is to be answered within ten business days barring special instructions and/or circumstances. Congressional inquiries forwarding constituent complaints involving OTS-regulated institutions are to be answered within fifteen business days. In addition, all Congressional correspondence will receive an interim acknowledgment within five days of receipt and all correspondence will include the name and telephone number of an agency contact. Under our Interpretive Opinions Customer Service Plan, the OTS will send an acknowledgment letter within 20 days of receipt of a written request for an interpretative opinion, and will issue replies within 60 days for short-form replies, and within 90 days for all other replies.

our contacts with Congress and its staff to keep them apprised of the OTS's views on pending legislative matters. The Plan also discusses how we will evaluate our programs going forward, and sets out in detail how we will measure our progress in meeting our major goals.

Our mission statement and five major goals are integrated into the Treasury-wide Strategic Plan. The OTS has a significant role in addressing one Treasury objective, namely to “[h]elp bring residents of distressed communities into the economic mainstream.” This objective is supported by the OTS goal of improving credit availability in the areas of greatest need.

We also support Treasury's goal of “[p]romot[ing] domestic economic growth.” Treasury's Strategic Plan identifies one of the objectives of this goal as improving and modernizing the U.S. financial system. As noted, the OTS's third goal is to enhance the competitiveness of the thrift industry in order to promote safety and soundness. One of the objectives related to that goal is to support efforts to create a modern financial services charter that will ensure that insured depository institutions continue to meet credit needs, effectively compete with other financial services providers, and anticipate the needs of their customers.

The OTS also participates in the Government Performance and Results Act Banking Regulatory Agencies Working Group. The members of the Working Group (which is made up of the OTS, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency and the National Credit Union Administration) have agreed to share information, reconcile inadvertent conflicts in the members' plans, and affirm that the plans will emphasize the common interest in maintaining safe and sound depository institutions. The Working Group will continue to meet to help coordinate the agencies' strategic plans.

We also plan to continue to consult with members of Congress and their staffs to further refine the submissions we are required to make under the Results Act. Clearly, agency responses to the Results Act will evolve over time. The OTS is committed to continued discussion and consultation with all interested parties in order to achieve the goals of the Results Act.

III. The Next Steps in the Planning Process

The next step envisioned by the Results Act is the creation and submission of an annual Performance Plan. The OTS submitted an annual Performance Plan last year as part of the Treasury pilot. The process of developing this year's annual Performance Plan is well underway, and we will submit that plan to Treasury by the end of the calendar year. Then, as required by the Results Act, we will submit by the end of March 1998 a Program Performance Report reviewing how we measured up to the goals and objectives of our 1996 Performance Plan that was submitted as part of the Treasury pilot. This process will continue annually.

The Results Act also requires that we update and revise our Plan at least every three years. In fact, even though the statute requires that we do so every three years, we intend to present such updated and revised strategic plans annually. We will incorporate the evaluations of this year's Plan and annual Performance Plan in our future planning efforts.

IV. Conclusion

Let me conclude by making clear that we view long-term strategic planning as a crucial part of any organization's current and future performance. We are

particularly sensitive to its value in the dynamic, ever-changing financial environment in which we and the industry we regulate operate.

In a way, the process of strategic, long-term planning resembles how we conduct a safety and soundness examination of one of our regulated thrift institutions. An examination assesses an institution's past and current condition. But it also should look at an institution's operations going forward, assessing the future needs and demands of the institution and presenting ways in which management can adjust its policies and objectives to meet that future.

We at the OTS have learned first hand the advantages of solid, focused, long-term strategic thinking. To the extent that the Results Act incorporates those lessons into the everyday lives of Federal agencies, we are fully supportive. I thank the Committee for inviting me to participate in this important discussion.