

Office of Thrift Supervision

OMB FY2006

Budget/Performance Plan
Submission

This document describes the mission, goals, and performance results of the Office of Thrift Supervision. It also provides OTS's FY 2006 approved budget and strategies.

Although OTS receives no appropriated funds from Congress, OTS provided this budget information to the Department of the Treasury for inclusion in the Justification for Appropriations and Performance Plans that Treasury submitted to Congress on February 6, 2006.

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Office of Thrift Supervision

Mission:

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.

Resources Summary

Table 1.1

(Dollars in Thousands)

| Resources | FY 2005 Actual | FY 2006 Estimated | FY 2007 Estimated | \$ Change FY 2006 to FY 2007 | % Change FY 2006 to FY 2007 |
|---------------------------------------|-------------------|----------------------|----------------------|------------------------------------|-----------------------------------|
| Supervision of the thrift industry | 187,434 | 215,500 | 220,888 | 5,388 | 2.5% |
| Total Resources | \$187,434 | \$215,500 | \$220,888 | \$5,388 | 2.5% |

FY 2006 Priorities

- Examine, supervise and regulate approximately 900 savings associations with total assets exceeding \$1.4 trillion,
- Examine and regulate approximately 500 registered holding company enterprises with total assets exceeding \$7.1 trillion,
- Tailor examinations to the risk profile of the institution and streamline the examination of smaller institutions,
- Conduct safety and soundness examinations of savings associations every 12-18 months that also incorporate an assessment of compliance with consumer protection laws and regulations,
- Continue efforts to minimize regulatory burden,
- Abate money laundering and terrorist financing by examining savings associations for compliance with the Bank Secrecy Act, the USA PATRIOT Act and other anti-money laundering laws, and
- Continue efforts to implement the international Basel II risk-based capital framework.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

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 Federal Deposit Insurance Corporation (FDIC). OTS's primary statutory authority is the Home Owners' Loan Act originally enacted in 1933. OTS also examines, supervises and regulates state-chartered savings associations insured by the FDIC and provides for the registration, examination and regulation of savings and loan holding companies (SLHCs) and other affiliates.

OTS is the only Federal banking agency that both charters depository institutions and supervises their holding companies. The focus of most savings and loan holding companies is the ownership of a thrift institution. However, OTS regulates over 70 SLHCs that engage in businesses other than banking or lending related activities. These include insurance, securities and commercial firms such as American International Group, John Deere, General Electric, General Motors, ING, Merrill Lynch and Nordstrom.

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 work in regional offices.

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

Health of the Thrift Industry

Due to favorable economic conditions, a stable industry and the regulatory oversight that OTS provides, the thrift industry is operating in a safe and sound manner and performing extremely well. OTS examines savings associations every 12-18 months for safety and soundness and compliance with consumer protection laws and regulations. During these exams, the association's ability to identify, measure, monitor and control risk is

evaluated, including the risk posed by other entities within the corporate structure. When weaknesses are identified, supervisory action is taken.

As of September 2005, OTS regulated 866 savings associations with total assets of \$1.4 trillion. Savings associations operate in a safe and sound manner with 94 percent achieving an overall composite CAMELS rating of 1 or 2. The CAMELS rating reflects OTS's evaluation of an institution's Capital, Asset Quality, Management, Earnings, Liquidity and Sensitivity to market risk. The industry's capital position remains strong with over 99 percent of savings associations meeting the well-capitalized standards.

As of September 2005, OTS supervised 486 holding company enterprises with approximately \$7.1 trillion in consolidated assets. Over half of all savings associations and 80 percent of total savings association assets are owned by OTS-regulated holding companies.

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, and*
- *A professional and motivated workforce that provides exceptional service to its customers and supports achievement of OTS business goals.*

OTS Strategic Priorities

OTS's FY 2006 budget totals \$215.5 million. 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 2006 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.

Following are key strategic priorities for OTS during FY 2006:

Supervision: OTS assesses the financial condition and risk profile of savings associations and the consolidated enterprises 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 savings association management and minimize 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 63 percent of savings association assets as of September 2005. 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. 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 adequacy standards and risk management, while maintaining fair competition among all financial institutions.

OTS continues to engage in active dialog with foreign financial supervisors to discharge OTS's duties as a consolidated thrift holding company supervisor by working in conjunction with foreign functional supervisors. Another objective of OTS cross-border discussions includes receiving additional equivalency determinations under the European Union (EU) directives for OTS supervised financial conglomerates, banking groups, investment firms and insurance groups with operations in the EU. OTS is also focused on enhancing cooperation in the international community through active participation on international committees and working groups, pursuit of information sharing agreements with those foreign supervisors involved in the supervision of foreign operations of OTS supervised savings associations and savings and loan holding companies and participation in foreign technical assistance programs that utilize OTS examiner skills and expertise.

Regulatory Burden: OTS strives to reduce the regulatory burden on savings associations while maintaining effective supervision. To achieve this goal, OTS is improving the application process, limiting assessment rate increases and reviewing statutes and regulations that may impose regulatory burdens on thrifts. It tailors examinations to the risk profile of the individual institutions, streamlines the examination procedures for small institutions and conducts comprehensive examinations that combine safety and soundness and compliance.

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 continues its outreach efforts to review regulations and legislation to identify unnecessary burden.

Technology/Operational Risks: The growth of internet banking, foreign outsourcing and the continued rapid pace of technological and financial innovation is creating new challenges and concerns. Identity theft and the significant increases in electronically perpetrated consumer scams are impacting consumer confidence in electronic banking. OTS's Information Technology examiners and specially trained safety and soundness examiners assess savings associations' use of technology. Data and customer security and foreign outsourcing are receiving increased supervisory attention. OTS evaluates these risks on a consolidated basis in those cases where a savings association is part of a complex conglomerate that manages IT risk on an enterprise-wide basis.

1B – Previous Highlights and Accomplishments

The following activities highlight recent OTS accomplishments and strategic achievements:

Countering Financial Crime

The Federal banking regulatory agencies, including OTS, are working in partnership with the credit union regulatory agency and the Financial Crimes Enforcement Network (FinCEN) to abate money laundering and terrorist financing. The approach the regulatory agencies have taken to achieve these goals is to ensure examination consistency and provide guidance to financial institutions for developing policies and programs to comply with anti-money laundering requirements.

The regulatory agencies recently issued interagency guidance on a wide variety of specific topics, such as customer identification program requirements, the provision of services to foreign embassies and foreign political figures and information sharing requirements under section 314(a) of the USA PATRIOT Act. To address the specific issue of examination consistency, the agencies recently issued examination procedures that provide valuable guidance to both examiners and the banking industry. These

interagency examination procedures are being augmented by nationwide examiner training and banker outreach efforts.

OTS expects savings associations to take a risk-based approach in developing and administering their anti-money laundering compliance programs. OTS recognizes that, due to the diversity of the U.S. financial system, this is not an area that lends itself to a prescriptive, one-size-fits-all approach. OTS's approach allows savings associations the flexibility to design programs that are appropriate for their particular business operations, provided the programs are consistent with regulatory requirements.

The Federal regulatory agencies and FinCEN executed an information sharing agreement to enhance implementation and communication regarding the Bank Secrecy Act (BSA). OTS augmented its data collection and internal tracking systems to ensure timely follow-up on BSA/anti-money laundering (AML) compliance deficiencies and to facilitate information sharing with FinCEN.

Global Financial Services

OTS serves on several international task forces and working groups responsible for developing and implementing the Basel II capital accord. Domestically, OTS is working with the other Federal banking agencies to ensure Basel II will serve as a modern, risk-based capital framework that enhances risk management and refines capital adequacy on a basis broadly consistent with capital standards governing foreign banking organizations. A key aspect of this work was the fourth quantitative impact study designed to provide the agencies with a better understanding of how implementation of the Basel II Framework might affect minimum required risk-based capital within the U.S. banking system. The study results will help the Federal banking agencies develop an interagency notice of proposed rulemaking and comprehensive guidance.

OTS is a leader among the four Federal banking agencies in developing capital modifications to Basel I for the considerable majority of financial institutions that will not adopt Basel II.

The European Union directive on financial conglomerates became effective January 2005. One of the directive's objectives is to ensure that financial conglomerates headquartered outside EU member countries and conducting financial operations in the EU are subject to an equivalent level of supervision by foreign supervisors. The directive also emphasizes coordination among relevant supervisors. OTS is the supervisor for U.S. thrift holding companies, including a number of financial conglomerates active in the EU. OTS received "equivalency" status under the EU financial conglomerates directive for an American financing company and continues to work with the appropriate EU supervisors responsible for other OTS supervised conglomerates with EU operations. OTS recently executed supervisory information sharing agreements with Australia, Canada, France, Germany, the United Kingdom, the Netherlands and Poland. OTS is also a signatory to an existing framework agreement for sharing supervisory information between the EU and U.S. Federal banking agencies. OTS is discussing supervisory information sharing agreements with banking and insurance authorities in China, Italy and France.

Regulatory Burden Reduction

Under the Economic Growth and Regulatory Paperwork Reduction Act (EGRPRA), a 1996 law, Federal banking agencies are required to review all of their regulations at least once every 10 years. The agencies must complete the first review under this law by 2006. In 2003, the agencies began a multi-year joint effort to categorize the regulations, publish the categories for comment, report to Congress on any significant issues raised by the comments and eliminate unnecessary regulations. To date, agencies have issued five notices requesting comment on various categories of regulations. In addition, the agencies are conducting outreach meetings across the United States to solicit input from bankers as well as consumer and community groups.

The Federal banking agencies have also identified burdens that would require legislative changes to the underlying statutes before changes can be made to the regulations. These changes were presented to Congress in 2005 as a list of consensus items that also enjoy industry support as being meaningful reductions in burden.

Based on industry comments, OTS changed its application and reporting requirements in an interim final rule in November 2004. The changes were designed to reduce burden to the extent consistent with the safe and sound supervision of the banking and thrift industries. On August 31, 2005, OTS finalized this rule. The rule: 1) modifies application and notice requirements that apply to branch and agency offices operated by thrifts; 2) revises the publication and public comment procedures for various OTS applications and notices; and 3) revises procedures for formal and informal meetings held in connection with OTS applications.

For the third consecutive year, OTS managed its operations to ensure that assessment rate increases did not exceed the inflation rate.

Comprehensive Examination Initiative

In April 2002, OTS began combining its separate compliance and safety and soundness examinations into one comprehensive examination. The combination allows for greater efficiencies in the examination process, improved assessment of risk within the industry and a broader range of development opportunities for its examiners. OTS examination teams issue one report of examination that covers both compliance and safety and soundness. The approach allows OTS to comprehensively assess an institution's risk management programs, business strategy and operations. OTS is also able to evaluate compliance management programs and compliance with the Bank Secrecy Act, Fair Lending and Privacy on a more frequent basis. The majority of OTS-regulated institutions indicate a favorable response to the comprehensive examination approach.

OTS is more efficient and has reduced regulatory burden due to its comprehensive examination approach. It issues one information request package at the start of each examination. It examines lending portfolios from both compliance and safety and soundness perspectives at the same time. It also prepares one comprehensive

examination report that details all examination findings. OTS launched a new comprehensive examination handbook that combines its compliance and safety and soundness examination guidance. Over time, OTS expects this comprehensive approach will further reduce savings association cost and burden while promoting efficient, risk-focused examinations.

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

1C – Future Outlook

OTS will continue to address the key strategic priorities outlined in Section 1 while monitoring the effects of external economic factors. Each priority and its associated activities support the OTS mission and its effort to ensure that the thrift industry thrives and remains healthy.

The 2005 devastation of Hurricanes Katrina and Rita in the Gulf Coast states is representative of how quickly external factors reprioritize the regulatory support that OTS and the thrift industry must provide to preserve the integrity of financial systems and to serve their affected customers. On August 29, OTS issued a news release encouraging thrifts to assist customers in areas affected by Hurricane Katrina and stating that OTS would work with thrifts to identify ways to assist in the recovery efforts of their customers and communities. OTS issued a news release in conjunction with the Federal Reserve System, Conference of State Bank Supervisors, FDIC, NCUA and OCC encouraging insured depository institutions to assist displaced customers.

The needs and issues presented by Hurricane Katrina are unprecedented and will take a long time to resolve. In addition to participating in various interagency relief efforts, OTS communicates with all thrift institutions in the affected area to determine resources and assistance that may be needed for recovery. To assist savings associations and their customers affected by hurricanes, OTS provides a toll-free hotline number on its internet site for hurricane-related questions. OTS also provides access to the OTS press releases addressing hurricane-related issues plus information from government sponsored enterprises and trade groups, community service groups (such as the American Red Cross and Habitat for Humanity) and information from State agencies.

OTS is helping its institutions restore branch facilities, including temporary facilities and is encouraging thrifts in the affected areas to work with their customers and communities by:

- Considering temporarily waiving late payment charges and early withdrawal of savings penalties,
- Reassessing the current credit needs of their communities and offering prudent loans to help rebuild damaged property,
- Restructuring borrowers' debt obligations, where appropriate, by altering or adjusting payment terms,
- Soliciting State and Federal guarantees and other means to help mitigate excessive credit risks, and
- Considering all available programs offered by the Federal Home Loan Banks.

In order to facilitate rebuilding efforts in the areas affected by the hurricanes, OTS is working with institutions to grant emergency exceptions to applicable appraisal standards and to provide for the allowance of reasonable loan documentation deficiencies necessitated by thrift office relocation or personnel shortages. OTS will continue to monitor the effects of the hurricanes on the regional and national economy throughout 2006.

The rise in home values coupled with low interest rates and favorable tax treatment have made residential mortgage loans and home equity lines of credit extremely attractive to consumers. To date, delinquency and loss rates on home equity loans and lines have been at historical lows. A number of new mortgage products, underwriting risk factors and lending trends have attracted increased supervisory scrutiny. OTS will reinforce close attention to underwriting standards and safe and sound lending practices with savings associations using these new product lines.

OTS will continue to combat fraud and money laundering and protect the integrity of the financial system by building upon the success of the common examination procedures, guidance and outreach that occurred in 2005. OTS will also strive to continue its efforts to reduce regulatory burden and to support the recommendations of the EGRPRA interagency team.

Section 2 – Not Applicable for Non-appropriated Bureaus

Section 3 – Budget and Performance Plan

3.1 – Activity Summary Table

Dollars in Thousands

| Description | FY 2005 Actual | FY 2006 Estimated | FY 2007 Estimated | % Change FY 2006 to FY 2007 |
|---|-------------------|----------------------|----------------------|-----------------------------------|
| Summary of Revenue and Expenses: | | | | |
| Revenue: | | | | |
| Supervision | | | | |
| Assessments | 187,419 | 206,000 | 211,150 | 2.5% |
| Rental Income | 5,114 | 4,739 | 4,857 | 2.5% |
| Interest | 5,709 | 5,800 | 5,945 | 2.5% |
| Fees & Other | 8,612 | 6,461 | 6,623 | 2.5% |
| Total Revenue | \$206,854 | \$223,000 | \$228,575 | 2.5% |
| Expenses: | | | | |
| Supervision | | | | |
| Compensation & Benefits | 153,905 | 176,047 | 180,448 | 2.5% |
| Travel & Transportation | 11,089 | 12,310 | 12,618 | 2.5% |
| Facilities | 10,759 | 12,895 | 13,217 | 2.5% |
| Other Services & Supplies | 11,681 | 14,248 | 14,604 | 2.5% |
| Total Expenses | \$187,434 | \$215,500 | \$220,888 | 2.5% |
| Net Results | \$19,420 | \$7,500 | \$7,687 | 2.5% |

3A – Budget Activity Description

Supervision of the Thrift Industry (\$215,500,000) OTS's budget supports the supervision program. OTS receives no appropriated funds from Congress; the income of the bureau is derived principally from assessments on savings associations and savings and loan holding companies. OTS's four strategic goals guide the annual budget activity.

Strategic Goal 1: A safe and sound thrift industry.

Through the examination process, OTS assesses the financial condition and risk profile of savings associations, including their ownership structure and identifies and addresses unsafe and unsound practices and violations of law and regulation. Through the off-site monitoring process, OTS regularly monitors the financial performance of individual savings associations and the industry 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. OTS continually assesses its examination procedures to ensure that there is an adequate review of the association's controls and risk management processes.

Due to favorable economic conditions, a stable industry and the regulatory oversight that OTS provides, the thrift industry is operating in a safe and sound manner and performing extremely well. As of September 2005, OTS regulates 866 savings associations with total assets of \$1.4 trillion. Savings associations operate in a safe and sound manner with 94 percent achieving an overall composite CAMELS rating of 1 or 2. The industry's capital position remains strong with over 99 percent of savings associations meeting the well-capitalized standards.

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

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

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

OTS strives to manage operations to ensure that assessment rate increases do not exceed the inflation rate. Without compromising responsibilities, the assessment rate increases have not exceeded the inflation rate for the past three years. OTS replaced holding company examination fees with semi-annual assessments in 2004. The new system provides savings and loan holding companies with consistency and predictability regarding costs. It allows them to better plan for assessments by eliminating annual fluctuations that occurred under the previous system.

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

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

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

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

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

3.2 – Budget and Performance Plan

Dollars in Thousands

| |
|---|
| OTS Support of Treasury Goals |
| Treasury Strategic Goal: Preserve the integrity of financial systems (F3) |
| Treasury Strategic Objective F3C: Increase the reliability of the U.S. Financial System |
| OTS Budget Activity: Supervision OTS Strategic Goals: A safe and sound thrift industry. 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. |
| Treasury Strategic Goal: Promote prosperous U.S. and World economies (E1) |
| Treasury Strategic Objective E1B: Provide a flexible legal and regulatory framework |
| OTS Budget Activity: Supervision OTS Strategic Goal: A flexible legal and regulatory framework that enables the thrift industry to provide a full competitive array of financial services. |

| OTS Budget by Treasury Strategic Goal | | | | | | |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| | FY 2002 | FY 2003 | FY 2004 | FY 2005 | FY 2006 | FY 2007 |
| Resource Level ^{1/} | Actual | Actual | Actual | Actual | Estimated | Estimated |
| Treasury Strategic Goal: Preserve the integrity of financial systems (F3) | | | | | | |
| Treasury Strategic Objective F3C: Increase the reliability of the U.S. Financial System | | | | | | |
| Budget Activity: | | | | | | |
| Supervision (90%) | 137,900 | 138,293 | 160,842 | 168,691 | 193,950 | 198,799 |
| Total Operating Level for F3C | \$137,900 | \$138,293 | \$160,842 | \$168,691 | \$193,950 | \$198,799 |
| Human Resources | | | | | | |
| Supervision | NA | 821 | 797 | 797 | 869 | 869 |
| Total FTE (direct and reimbursable) for F3C | NA | 821 | 797 | 797 | 869 | 869 |
| Treasury Strategic Goal: Promote prosperous U.S. and World economies (E1) | | | | | | |
| Treasury Strategic Objective E1B: Provide a flexible legal and regulatory framework | | | | | | |
| Budget Activity: | | | | | | |
| Supervision (10%) | 17,800 | 15,366 | 17,871 | 18,743 | 21,550 | 22,089 |
| Total Operating Level for E1B | \$17,800 | \$15,366 | \$17,871 | \$18,743 | \$21,550 | \$22,089 |
| Human Resources | | | | | | |
| Supervision | NA | 91 | 89 | 88 | 96 | 96 |
| Total FTE (direct and reimbursable) for E1B | NA | 91 | 89 | 88 | 96 | 96 |
| Total Operating Level for OTS | \$155,700 | \$153,659 | \$178,713 | \$187,434 | \$215,500 | \$220,888 |
| Total FTE for OTS | NA | 912 | 886 | 885 | 965 | 965 |

Office of Thrift Supervision

Strategic Objective: Increase the Reliability of the U.S. Financial System - F3C

Budget Activity: Supervision

Performance Goal: Conduct examinations in an efficient and effective manner

| | <u>FY 2002</u> | <u>FY 2003</u> | <u>FY 2004</u> | <u>FY 2005</u> | <u>FY 2006</u> | <u>FY 2007</u> |
|---|----------------|----------------|----------------|----------------|----------------|----------------|
| Percent of safety and soundness exams started as scheduled (%) (Ot) | | | | | | |
| Target | | Baseline | 90 | 90 | 90 | 90 |
| Actual | | 92 | 94 | 93 | | |
| Target Met? | N/A | Y | Y | Y | | |
| Total OTS costs relative to every \$100,000 in savings association assets regulated (\$) (E) | | | | | | |
| Target | | | | | Baseline | TBD |
| Actual | | | | | | |
| Target Met? | N/A | N/A | N/A | N/A | | |

Budget Activity: Supervision

Performance Goal: Ensure that OTS-regulated thrift institutions operate in a safe and sound manner or that OTS has taken appropriate supervisory or enforcement action

| | <u>FY 2002</u> | <u>FY 2003</u> | <u>FY 2004</u> | <u>FY 2005</u> | <u>FY 2006</u> | <u>FY 2007</u> |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| Percent of thrifts with composite CAMELS ratings of 1 or 2 (%) (Oe) | | | | | | |
| Target | | Baseline | 90 | 90 | 90 | 90 |
| Actual | | 93 | 93 | 94 | | |
| Target Met? | N/A | Y | Y | Y | | |

Budget Activity: Supervision

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

| | <u>FY 2002</u> | <u>FY 2003</u> | <u>FY 2004</u> | <u>FY 2005</u> | <u>FY 2006</u> | <u>FY 2007</u> |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| Percent of thrifts with compliance examination ratings of 1 or 2 (%) (Oe) | | | | | | |
| Target | | Baseline | 90 | 90 | 90 | 90 |
| Actual | | 94 | 94 | 94 | | |
| Target Met? | N/A | Y | Y | Y | | |

Budget Activity: Supervision

Performance Goal: Maintain a thrift industry that is adequately capitalized

| | <u>FY 2002</u> | <u>FY 2003</u> | <u>FY 2004</u> | <u>FY 2005</u> | <u>FY 2006</u> | <u>FY 2007</u> |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| Percent of thrifts that are well capitalized (%) (Oe) | | | | | | |
| Target | | Baseline | 95 | 95 | 95 | 95 |
| Actual | | 99.6 | 99.4 | 99.5 | | |
| Target Met? | N/A | Y | Y | Y | | |

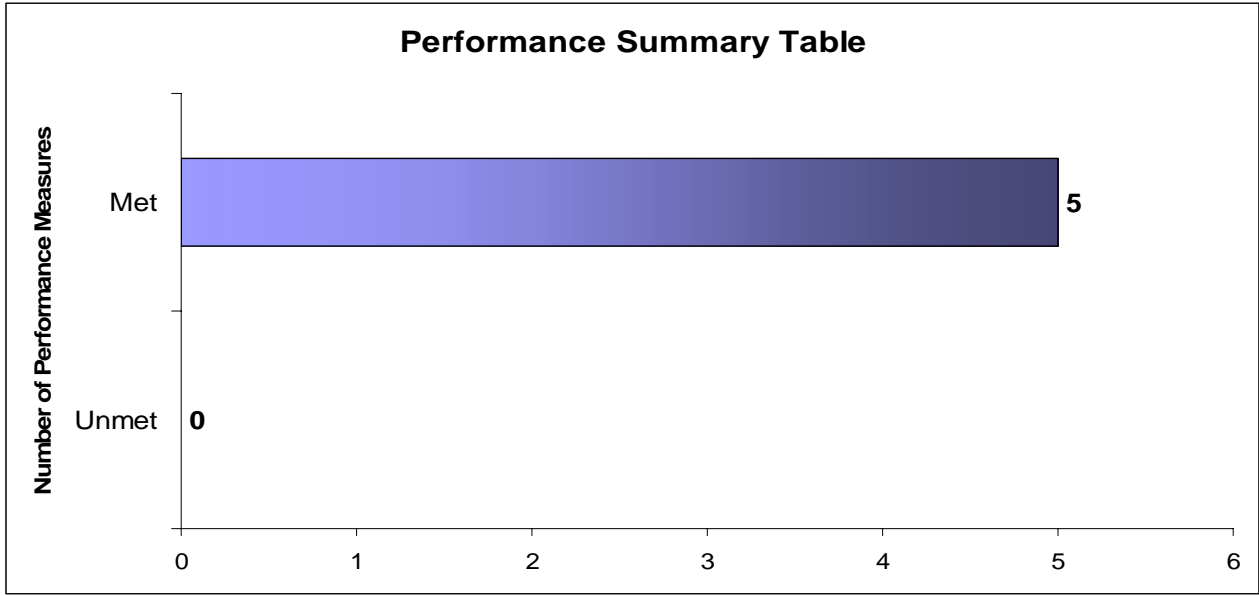
Strategic Objective: Provide a Flexible Legal and Regulatory Framework - E1B

Budget Activity: Supervision

Performance Goal: Minimize financial regulatory burden on thrifts

| | <u>FY 2002</u> | <u>FY 2003</u> | <u>FY 2004</u> | <u>FY 2005</u> | <u>FY 2006</u> | <u>FY 2007</u> |
|---|----------------|----------------|----------------|----------------|----------------|----------------|
| Difference between the inflation rate and the OTS assessment rate increase (%) (E) | | | | | | |
| Target | 0 | 0 | 0 | 0 | 0 | 0 |
| Actual | 0 | 0 | 0 | 0 | | |
| Target Met? | Y | Y | Y | Y | | |

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure



3B – Description of Performance

As highlighted in the charts, OTS met all five of its performance measures in 2005. Following is a brief description of each performance measure:

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

On December 9, 1996, the Federal Financial Institutions Examination Council (FFIEC) adopted the CAMELS rating system as the internal rating system to be used by the Federal and State regulators for assessing the safety and soundness of financial institutions on a uniform basis. The CAMELS rating system puts increased emphasis on the quality of risk management practices. “CAMELS” stands for Capital adequacy, Asset quality, Management, Earnings, Liquidity and Sensitivity to market risk. OTS assigns a composite CAMELS rating to savings associations at each examination and may adjust the rating between examinations if the association’s overall condition has changed. 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 composite rating. The CAMELS rating is based upon a scale of 1 through 5 in increasing order of supervisory concern.

Percent of thrifts that are well capitalized.

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. The Federal Deposit Insurance Act established a system of prompt corrective action (PCA) that classifies insured depository institutions into five categories (well-capitalized;

adequately capitalized; undercapitalized, significantly undercapitalized; and critically undercapitalized) based on their relative capital levels. The purpose of PCA is to resolve the problems of insured depository institutions at the least possible long-term cost to the deposit insurance fund.

Percent of safety and soundness exams started as scheduled.

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

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

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 consumer protection statutes, regulations and requirements. The Compliance Rating System is based upon a scale of 1 through 5 in increasing order of supervisory concern.

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

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

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

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

Beginning in FY 2006, OTS will implement a performance measure that reflects the efficiency of its operations while meeting the increasing supervisory demands of a growing and more complex thrift industry. This measure supports OTS's ongoing efforts to efficiently use agency resources. The efficiency measure is impacted by the relative size of the savings associations regulated. Over 65 percent of all savings associations have total assets less than \$250 million and are generally community-based organizations that provide retail financial services in their local markets. In addition, the measure does not include over \$7 trillion in assets of holding company enterprises regulated by OTS.

For detailed information about each performance measure, including definition, verification and validation, please go to:

<http://www.treasury.gov/offices/management/budget/budget-documents/cj/performance>

3C – PMA Evaluation Description

OTS evaluated the President's Management Agenda (PMA) strategies and adopted practices that were financially practical and helped OTS to achieve its mission. Many strategies were already practiced at OTS. Following are highlights:

Human Capital

Over 75 percent of the OTS budget funds staff compensation and benefits. Human capital is OTS's primary resource required to meet its strategic objectives. Sustaining and nurturing human capital resources requires a blend of competitive compensation, strategic and innovative training and a supportive work environment.

As a result of PMA, OTS drafted a Human Capital Strategic Plan and ensured that OTS's senior managers have a supplemental critical element in their Annual Performance Evaluation requiring the manager to have knowledge of OTS's Strategic Plan and its relationship to the applicable components of the senior manager's position and job responsibilities. OTS's compensation strategies and performance systems differentiate performance levels.

OTS offers a compensation and benefits package that is comparable to other financial regulators and allows OTS to retain and attract highly skilled candidates to perform specialized functions. To meet the need to fill positions requiring specialized expertise, OTS developed the Fellows Program that offers 13-24 month temporary appointments.

OTS strives to ensure that its staff is well trained and able to meet the challenges of regulating the thrift industry. Efforts to accomplish this include: an examiner accreditation program, specialized examiner training courses, use of individual development plans and a management development program.

Electronic Government

OTS strives to provide timely and efficient technological assistance and solutions to its examiners and the industry to meet regulatory responsibilities and enhance communication channels. The OTS web site includes a free service that provides subscribers with an e-mail alert when new material is posted to the site. OTS installs virtual private network software on the examiners' notebook computers to enable them to securely access OTS Systems and data over high-speed, broadband connections from OTS-regulated institutions or other locations. OTS provides a service to enable the exchange of encrypted messages and documents directly with institutions. The OTS Secure Messaging Center service meets the industry standards for secure electronic data exchange and facilitates the timely transmission of sensitive data and information. This program is successfully used to exchange sensitive data with the thrift industry. OTS systems enable collection and processing of examination workpapers in electronic format.

OTS has certified and accredited all of its 19 information technology systems and continues to update policies and procedures based on guidance from Treasury, OMB and the National Institute of Standards and Technology (NIST).

Budget and Performance Integration

OTS managers meet quarterly to integrate financial performance and program information. OTS's online Budget Variance Reporting System enables managers and employees responsible for financial performance to monitor expense, commitment and obligation data relative to approved budgets. Financial data is updated monthly and available through the OTS intranet. Quarterly performance measure results are posted on the OTS Strategic and Performance Planning intranet site. Senior managers discuss performance and financial results during the Regional Manager meetings that are held 10 times annually. All major OTS responsibilities are discussed.

Improved Financial Performance

OTS is committed to financial management excellence. OTS financial management systems provide timely, useful and auditable information that promotes 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.

In FY 2003, OTS began receiving administrative accounting support through a cross-servicing arrangement with the Administrative Resource Center (ARC), an entity of the Treasury Franchise Fund. For FY 2005, ARC successfully transitioned its financial management operations to Oracle Federal Financials for OTS.

3.3 – PART Evaluation Table

| | |
|------------------------|--|
| PART Name: | Thrift Supervision |
| Strategic Goal: | Preserve the integrity of financial systems (F3) |
| Rating: | Effective |

OMB Major Findings

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

OMB Recommendations

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

OTS Actions Taken

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

OTS Actions Planned or Underway

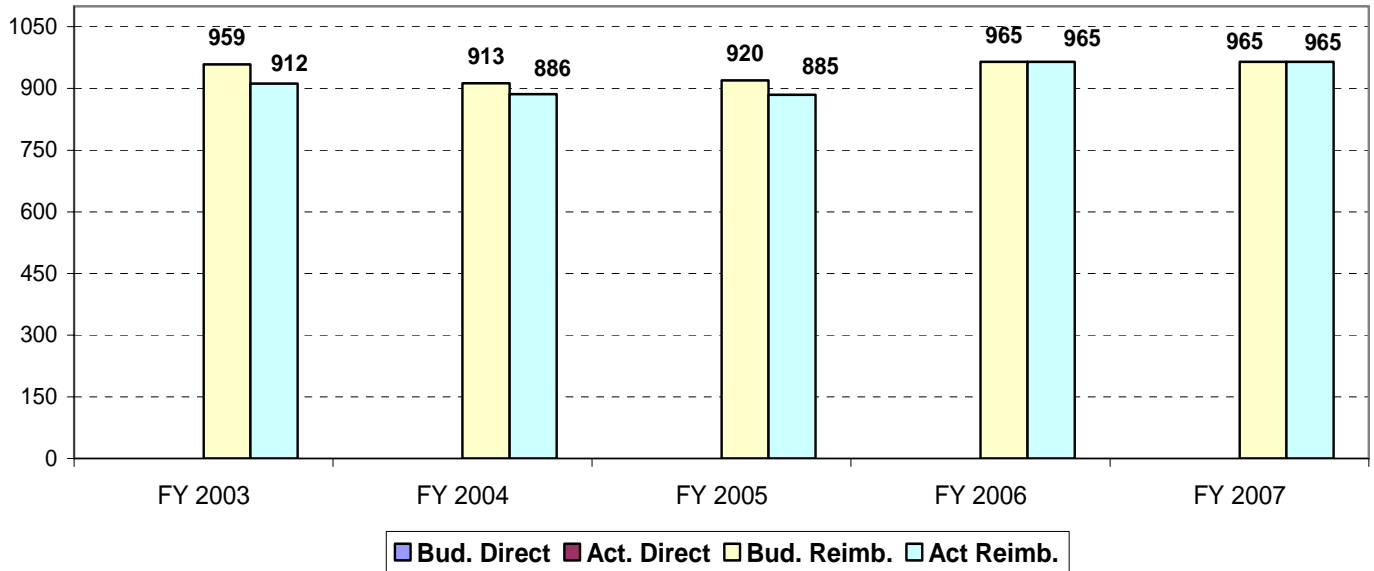
1. OTS will continue to work with the OCC to ensure that strategic goals are closely aligned. OTS will continue to share its strategic and performance plans with the other banking regulatory agencies and meet to discuss strategic and performance planning.
2. OTS will continue to perform a joint examination.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

There were no resource implications as a result of OTS's PART evaluation.

Section 4 - Supporting Materials

4.1 – Human Resources Table

Actual FTE vs. Budgeted FTE



| | FY 2005 | FY 2006 | FY 2007 |
|---|---------|---------|---------|
| Base: Year-end Actual from Prior Year | 886 | 885 | 965 |
| <u>INCREASES</u> | | | |
| Reason #1 | | 80 | |
| Continued recruitment priority in the examiner ranks for succession planning as well as to address increasing holding company needs | | | |
| Subtotal, Increases | | 80 | 0 |
| <u>DECREASES</u> | | | |
| Subtotal, Decreases | -1 | 0 | 0 |
| Actual/Projected FTE | 885 | 965 | 965 |
| Net Change from prior year SOY to budget year EOY estimate | -1 | 80 | 0 |

4A – Human Capital Strategy Description

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

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

OTS's Human Capital Strategic Plan (HCSP) links with two of the strategic goals outlined in OTS's Strategic Plan (2003 – 2008) and its annual Performance Budgets; namely, 1) a safe and sound thrift industry and 2) a professional and motivated workforce that provides exceptional service to its customers and supports achievement of OTS business goals.

4.2 – Summary of IT and Non-IT Resources Table

OTS does not have major IT or Non-IT investments.

4B – Information Technology and Non-Information Technology Strategy

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

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

OTS has no major IT investments planned for FY 2006.

4.3 – Operating Levels Table

Dollars in Thousands

| | FY 2005 Actual | FY 2006 Estimated | FY 2007 Estimated |
|--|-------------------|----------------------|----------------------|
| FTEs | 885 | 965 | 965 |
| Object Classification: | | | |
| 11.1 Full-Time Permanent Positions | 94,562 | 105,779 | 108,423 |
| 11.1 Other than Full-Time Permanent Positions | 945 | 1,425 | 1,461 |
| 11.5 Other Personnel Compensation | 0 | 0 | 0 |
| 11.8 Special Personal Services Payments | 0 | 0 | 0 |
| 11.9 Personnel Compensation (Total) | 95,507 | 107,204 | 109,884 |
| 12.0 Personnel Benefits | 58,277 | 68,544 | 70,258 |
| 13.0 Benefits to Former Personnel | 120 | 300 | 308 |
| 21.0 Travel | 10,865 | 12,055 | 12,356 |
| 22.0 Transportation of Things | 224 | 254 | 260 |
| 23.1 Rental Payments to GSA | 0 | 0 | 0 |
| 23.2 Rent Payments to Others | 4,352 | 4,359 | 4,468 |
| 23.3 Commun., Util., & Misc. | 2,880 | 3,571 | 3,660 |
| 24.0 Printing and Reprod. | 193 | 307 | 315 |
| 25.1 Advisory & Assistance Services | 928 | 1,469 | 1,506 |
| 25.2 Other Services | 1,553 | 3,088 | 3,165 |
| 25.3 Purchase of Goods/Serv. from Govt. Accts. | 3,224 | 3,822 | 3,918 |
| 25.4 Operation & Maintenance of Facilities | 4,050 | 3,673 | 3,765 |
| 25.5 Research & Development Contracts | 0 | 0 | 0 |
| 25.6 Medical Care | 0 | 0 | 0 |
| 25.7 Operation & Maintenance of Equipment | 279 | 297 | 304 |
| 25.8 Subsistence & Support of Persons | 0 | 0 | 0 |
| 26.0 Supplies and Materials | 1,279 | 1,592 | 1,632 |
| 31.0 Equipment | 2,334 | 3,706 | 3,799 |
| 32.0 Lands and Structures | 1,194 | 1,259 | 1,290 |
| 33.0 Investments & Loans | 0 | 0 | 0 |
| 41.0 Grants, Subsidies | 0 | 0 | 0 |
| 42.0 Insur. Claims & Indemn. | 175 | 0 | 0 |
| 43.0 Interest and Dividends | 0 | 0 | 0 |
| 44.0 Refunds | 0 | 0 | 0 |
| Total..... | \$187,434 | \$215,500 | \$220,888 |
| Budget Activities: | | | |
| Supervision of the thrift industry | | | |
| Total..... | \$187,434 | \$215,500 | \$220,888 |