



Audit Report



OIG-10-024

Audit of the Office of the Comptroller of the Currency's
Fiscal Years 2009 and 2008 Financial Statements

December 22, 2009

Office of
Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

December 22, 2009

**MEMORANDUM FOR JOHN C. DUGAN
COMPTROLLER OF THE CURRENCY**

FROM: Michael Fitzgerald
Director, Financial Audits

SUBJECT: Audit of the Office of the Comptroller of the Currency's
Fiscal Years 2009 and 2008 Financial Statements

I am pleased to transmit the attached audited Office of the Comptroller of the Currency (OCC) financial statements for fiscal years 2009 and 2008. Under a contract monitored by the Office of Inspector General, GKA, P.C. (GKA), an independent certified public accounting firm, performed an audit of the financial statements of OCC as of September 30, 2009 and 2008 and for the years then ended. The contract required that the audit be performed in accordance with generally accepted government auditing standards; applicable provisions of Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended; and the *GAO/PCIE Financial Audit Manual*.

The following reports, prepared by GKA, are incorporated in the attachment:

- Independent Auditor's Report on Financial Statements;
- Independent Auditor's Report on Internal Control over Financial Reporting;
and
- Independent Auditor's Report on Compliance with Laws and Regulations

In its audit of OCC's financial statements, GKA found:

- that the financial statements were fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America,
- no matters involving internal control and its operations that are considered material weaknesses, and
- no instances of reportable noncompliance with laws and regulations tested.

GKA also issued a management letter dated October 30, 2009, discussing certain matters involving internal control over financial reporting and its operation that were identified during the audit but were not required to be included in the auditor's reports. This letter will be transmitted separately.

In connection with the contract, we reviewed GKA's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit performed in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the financial statements or conclusions about the effectiveness of internal control or compliance with laws and regulations. GKA is responsible for the attached auditor's reports dated October 30, 2009 and the conclusions expressed in the reports. However, our review disclosed no instances where GKA did not comply, in all material respects, with generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-5789 or a member of your staff may contact Ade Bankole, Manager, Financial Audits at (202) 927-5329.

Attachment



Comptroller of the Currency
Administrator of National Banks

US Department of the Treasury

Office of the Comptroller
of the Currency

Annual Report
Fiscal Year 2009

Congress of the United States

At the third Session.

First day of December, one thousand eight

AN ACT

currency secured by a pledge of United States bonds on the circulation and redemption

Senate and House of Representatives of the United States

be established in the Treasury Department

be changed until the execution of this act

by Congress respecting the issue and redemption of United States bonds. The chief officer of the Department of the Currency shall

Abraham Lincoln
President of the Senate

Approved, February 25, 1863.

“An Act to Provide a National Currency,”

pictured in a photo illustration here and on the front cover, was signed into law by President Abraham Lincoln on February 25, 1863. The Act created a system of national banks authorized to issue a uniform currency secured by a pledge of U.S. government bonds. The Act also established “a separate bureau” of the Treasury Department, the Office of the Comptroller of the Currency, to charter, supervise, and regulate national banks.

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“It shall be the duty of the Comptroller of the Currency to report annually to Congress ... such information ... as, in his judgment, may be useful.”

—*National Bank Act, June 3, 1864, Section 61*

Comptroller's Viewpoint

My term as Comptroller of the Currency draws to an end on August 4, 2010. So it seems like an appropriate time to look back on the four-plus years since I was sworn into office and offer some thoughts on what the future might hold for the national banking system and the OCC, which it has been my honor to head.

To say that these years have been eventful would be beyond understatement. When I took office, the economy was growing, house prices were continuing to climb, and national banks were reporting strong growth and profits. By traditional measures, loan quality was excellent, noninterest income was robust, and capital was at historic highs. No bank failures occurred in 2005—or, for that matter, in 2006.

Yet, even then, it was clear that dark clouds were beginning to form on the financial system's horizon. The OCC's *Survey of Credit Underwriting Practices 2005* showed continued easing of credit standards, reflecting pressure from competition and optimistic assumptions for loan volume, yield, and market share. Vulnerabilities were evident in the quality of leveraged loans, large corporate loans, and in rising concentrations of commercial real estate loans. Investors became increasingly wary of the risk such credits entailed, forcing many banks to hold unexpectedly large volumes of corporate loans and loan commitments on their balance sheets.

On the retail side of the business, residential mortgage and home equity lending standards slipped, as banks increased allowable debt-to-income and loan-to-value ratios and made more loans with reduced documentation requirements. Significantly, this easing of standards came at a time when prices in the previously robust housing market were leveling off and, in some markets, actually declining.

The OCC focused increased supervisory attention on areas that presented elevated safety and soundness concerns. Less than three months after taking office, I addressed OCC credit examiners and highlighted problems with underwriting standards, nontraditional mortgage products, and commercial real estate. Although we were working on interagency guidance at the time, I told examiners they should take steps immediately to evaluate the quality of underwriting in banks they supervise and to ensure that consumers were receiving adequate disclosures.

In September 2006, we issued guidance on nontraditional mortgages that required national banks



John C. Dugan
Comptroller of the Currency

to improve their risk management and disclosure policies on such products. In part because of the OCC's emphasis on the safety and soundness and consumer compliance ramifications of subprime lending, national banks tended to steer clear of these risky products. The subprime loans that national banks did make represented only a small fraction of the total market and were generally of higher quality than those originated elsewhere.

Along with the other federal banking agencies, and over industry objections, we issued guidance that called on banks with heavy commercial real estate concentrations to

adopt risk management and capital policies commensurate with the increased risk such concentrations posed. To monitor market trends and bank compliance with regulatory policy, we conducted intensive reviews of commercial real estate portfolios in national banks across the country. We delivered these cautionary messages repeatedly in speeches, in outreach meetings with bankers, and in our supervisory activities nationwide.

And because capital is a key element of any risk management regime and the bulwark of a safe

Then, with suddenness that few foresaw, the subprime market collapsed. As institutions struggled to assess the extent of their mortgage-related losses and those of their customers and trading partners, funding markets locked up, exacerbating the national recession that had begun in December 2007. Banks, including those that had never made a subprime loan, came under enormous stress, and the liquidity runs that followed were responsible for the collapse of several large institutions. The impact on the financial system was profound, and Wall Street's

for making regulatory recommendations on which smaller institutions should receive TARP capital. We were very involved in the design and application of the "stress test" to assess how well our largest institutions could withstand a substantial credit shock and what additional capital needs these companies might have. The rigor of the tests and the transparency of the results fostered a healing process in which banks, as required by regulators, have been able to raise substantial amounts of capital to help repair their balance sheets.

The OCC today is an organization that has the resources, the expertise, the energy, and the experience to embrace the challenges that lie ahead.

and sound banking system, we worked within the Basel Committee on Banking Supervision to develop the Basel II risk-based capital requirements and with the other federal banking agencies to produce rules for its implementation in the United States.

troubles soon spread to Main Streets throughout America as house prices fell, foreclosures rose, and millions lost their jobs.

As this Annual Report recounts, the OCC played an important role in the government-wide effort to stabilize the banking system, restore the flow of credit, and assist victims of the financial crisis. We worked with the Federal Reserve and others to improve the liquidity positions of the banks we supervise. We facilitated the merger and acquisition by national banks of insolvent thrift institutions and investment banks. We were deeply involved in the Troubled Asset Relief Program (TARP) capital assistance program, both in regard to the largest nine institutions that received TARP support and in the process

The OCC's massive effort to collect, analyze, standardize, and validate data on the performance of mortgage loans represents a contribution of which I am particularly proud. Our *Mortgage Metrics Report*, which we publish every quarter, now covers about 24 million first-lien mortgages totaling nearly \$6 trillion in principal balances—64 percent of all mortgages in the United States. This data set has provided a deeper understanding of the mortgage market. It has been particularly useful in helping us understand what types of mortgage modifications were most likely to help distressed borrowers avoid foreclosure and remain in their homes. The OCC is using the *Mortgage Metrics* data to inform our supervisory policies and consumer protection initiatives.

We have also worked to enhance the quality of our supervision. The financial crisis identified several areas in need of improvement. The difficulty many banks faced in accessing liquid funds demonstrated the need for improved liquidity risk management and





improved regulatory tools to analyze that risk. We need to better understand and better manage the risk posed by complex financial instruments, many of which were hidden in off-balance-sheet vehicles that clouded the extent of the institution's exposure. And we need to revisit the issue of appropriate levels of concentration in such assets as commercial real estate loans.

As we adjust our supervisory approach and practices to address these challenges, we need to be mindful of actions that are procyclical. Where possible, bank regulation should serve as an effective counterweight to the excesses—up or down—of the banking system. Here, capital and loan loss reserves can play a critical role. At the start of this credit cycle, financial institutions did not have adequate loan loss reserves for the true credit risk in their portfolios, in part because the accounting system constrained their ability to increase and maintain a high level of reserves during a long period of benign credit conditions—even

though the longer that period lasted, the more likely it was that the cycle would soon turn, increasing losses and the need for adequate reserves. I have long argued for greater flexibility in those rules so that banks can build stronger reserves when times are good and they can afford to do so, rather than wait until times are bad and the need to increase reserves can seriously strain their financial condition and the ability to extend credit.

As I write this message, Congress is considering the Administration's regulatory restructuring proposals. I won't try to predict the outcome of that debate—or even whether it will have come to an end by the time you read this report. But I would offer some thoughts on the future. Since its creation in 1863, the national banking system, consisting of the very largest and very smallest banks, has played a critical role in our nation's economic growth. No matter where you travel in the United States, you need only to walk to the nearest ATM to obtain instantaneous

access to your money and to be reminded that our financial system is truly a national one that offers U.S. businesses and consumers an array of products that would have been unimaginable even a generation ago. Choice for consumers and competition for their business have served us very well indeed.

An organization is only as strong as its people. Ensuring that the OCC has the talented and dedicated personnel it needs to perform its important mission—not only for today but for years to come—has been one of my top priorities throughout my tenure. Just after taking office, I approved plans to strengthen our hiring and training. We launched an ambitious recruiting program targeting the nation's college campuses and experienced financial professionals, while enhancing our capacity to teach, develop, and retain employees. I am proud to say that this effort has borne substantial fruit. Even as we lose a number of seasoned professionals to retirement, we have planned for the future by establishing an outstanding team of younger employees who are growing in their jobs every day. The OCC today is an organization that has the resources, the expertise, the energy, and the experience to embrace the challenges that lie ahead.

Especially over the past two years, much has been asked of the dedicated employees of this agency. They have more than risen to that challenge. I am proud to have had the opportunity to lead them as the 29th Comptroller of the Currency.

OCC Cities



The OCC at-a-Glance

Employees (Full-Time Equivalents)	3,104
Office Locations*	91
Budget Authority	\$775.3 million
Revenue Derived from Assessments	97 percent
Consumer Complaints Opened	58,810
Consumer Complaints Closed	32,533

* In addition, the OCC maintains a continuous on-site presence at Large Banks under its supervision.

The National Banking System at-a-Glance

U.S. Commercial Banks	5,396
National Banks	1,565
Large Banks	51
Midsize Banks	71
Community Banks	1,443
National Banks, Share of All U.S. Commercial Banks	29 percent
U.S. Commercial Banking Assets	\$11.856 billion
National Bank Assets	\$8.210 billion
National Banks, Share of All U.S. Commercial Banking Assets	69 percent

Section One: Year of Crisis and Correction

Fiscal year 2009 was dominated by the worst financial crisis since the Great Depression. The Office of the Comptroller of the Currency, the regulator and supervisor of national banks, joined with other federal agencies in a concerted response to the crisis.

The year saw considerable progress toward restoring calm in financial markets and recapitalizing the banking system. However, credit quality continued to soften. Assuring that banks take appropriate action to recognize losses and solidify their financial position, have the resources to meet the credit needs of the nation's businesses and consumers, and possess the appropriate tools and programs to assist troubled borrowers were among the foremost challenges confronting the OCC's 3,100 employees.

Roots of the Crisis

The period 2000 to 2006 was a time of rapid growth in the real estate market. Home buyers were attracted by historically low interest rates and real estate appreciation. House prices soared nationwide, with California, Arizona, Nevada, and Florida registering the most dramatic increases. Some homeowners traded up or cashed out their capital gains, while home builders worked overtime to keep up with demand.

Home buyers and sellers pushed the financial envelope to expand sales, and loan features such as deferred payment schedules and



reduced documentation requirements became commonplace. The subprime segment, consisting of consumers with thin or impaired credit histories, doubled its share of total mortgage originations during the period. Most of these subprime loans were made by non-bank financial providers subject to less rigorous regulatory oversight than banks and thrifts.

By late 2006, conditions that had supported the real estate boom drastically changed. Houses that had once been the subject of bidding wars now sat unsold as the market stalled. After years of double-digit increases, home sales sank 13 percent between March 2006 and March 2007. In the third

quarter of 2006, the S&P/Case-Shiller Home Price Index recorded its first drop since 1991 and then kept dropping. For subprime borrowers with adjustable-rate mortgages, the drop made it difficult or impossible to refinance when their loans reset to a higher market rate of interest. By late 2007, close to one in five subprime loans was 90 days late or in foreclosure. Foreclosures depressed property values still further, accelerating the downward spiral.

The real estate collapse rippled through the economy. As the underlying loans deteriorated, the holders, dealers, packagers of, and investors in mortgage-backed securities were forced to take massive

Responding to the Financial Crisis: Partial List of U.S. Government Programs

U.S. Department of the Treasury

- Troubled Asset Relief Program (TARP)—provides funds for the purchase of assets, insures loans, and acquires stock in financial institutions.
- TARP subsidiary programs:
 - Capital Purchase Program provides funds for the purchase of preferred stock in banks and receives warrants for purchase of common or preferred stock.
 - Capital Assistance Program provides funds for purchase of preferred stock in banks and receives warrants for purchase of common stock. After seven years, the preferred stock automatically converts to common equity if not redeemed or converted before then.
 - Targeted Investment Program for investment in banks and other institutions considered crucial to the financial system.
 - Automotive Industry Financing Program makes loans and buys stock in the automotive industry.
 - Public-Private Investment Plan provides loans and loan insurance to investors for purchase of troubled real estate-related assets.
 - Asset Guarantee Program guarantees assets held by key financial institutions.
 - Systematically Significant Failing Institutions Program aids institutions that are critical to the financial system.
 - Making Home Affordable Program provides cash incentives to help lenders and homeowners modify mortgages.



Federal Reserve Board

- Term Asset-Backed Securities Loan Facility makes low-interest loans, with credit protection provided by TARP, to holders of asset-backed securities.
- Term Auction Facility makes short-term loans to banks.
- Primary Dealer Credit Facility provides overnight loans to banks and broker-dealers.
- Term Securities Lending Facility offers general collateral to banks and broker-dealers in exchange for other types of collateral.
- Commercial Paper Funding Facility buys highly rated unsecured and asset-backed commercial paper.
- Money Market Investor Funding Facility buys certificates of deposit and commercial paper.
- Asset-Backed/Commercial Paper/Money Market Mutual Fund/Liquidity Facility extends low-interest loans to financial firms that buy commercial paper from mutual funds.

Federal Deposit Insurance Corporation

- Temporary Liquidity Guarantee Program guarantees newly issued unsecured debt issued by eligible financial institutions. Separately, it also provides full federal insurance coverage of noninterest bearing checking deposit accounts.

write-offs, which exceeded \$500 billion by mid-2008. Cash fled into the safety of U.S. government securities. Before the year was out, the mounting credit and liquidity crisis had overwhelmed what were once some of the world's most powerful financial institutions. Investment bank Bear Stearns was acquired by JPMorgan Chase, a national bank. Another investment banking giant, Merrill Lynch, and Countrywide Financial, a thrift that was the source of 20 percent of all U.S. mortgages, were merged into Bank of America, another national bank. Thrifts Washington Mutual and IndyMac became, respectively, the largest and fourth largest financial institution failures in U.S. history. Fannie Mae and Freddie Mac, government-sponsored enterprises that owned more than half of all U.S. mortgages, were placed under government conservatorship, reducing the value of their

stock to almost nothing. Wachovia, the nation's fourth largest bank holding company, was acquired by Wells Fargo, also a national bank. The Federal Reserve established an \$85 billion credit facility so that insurance giant American International Group could meet its collateral obligations. In an event that sent tremors through the financial world, Lehman Brothers, one of the premier investment banks with almost \$700 billion in assets, became the largest bankruptcy in U.S. history.

Steadying the National Banking System

On October 1, 2008, the Dow Jones Industrial Average closed at 10,831, down 24 percent from its all-time high a year earlier. On that day, in the face of rising fear in the money markets and evidence that the crisis was moving from the financial sector into the general economy, the U.S. Senate passed the Emergency

Economic Stabilization Act of 2008. Two days later, the U.S. House of Representatives followed suit, and President George W. Bush signed the bill into law on October 3, 2008.

The law represented a comprehensive attempt to restore confidence, stability, and liquidity to the U.S. financial system. It included a temporary increase in the limit of Federal Deposit Insurance Corporation (FDIC) insurance from \$100,000 to \$250,000 per insured account; acceleration of authority for the Federal Reserve to pay interest on reserves, enabling it to extend the scope of its lending capacity; and a requirement that the U.S. Department of the Treasury create an insurance program for mortgage-backed securities. The Treasury Department also was required to develop and implement a plan to increase assistance to troubled mortgage borrowers.



The President's Working Group on Financial Markets meets to discuss the Troubled Asset Relief Program (TARP), October 14, 2008.

The Troubled Asset Relief Program (TARP) was the law's centerpiece. The program authorized \$700 billion—\$250 billion available immediately and \$450 billion more if needed—for the purpose of purchasing or insuring troubled assets.

With this authority in hand, on October 14, 2008, U.S. financial officials announced a three-pronged approach that Comptroller of the Currency John C. Dugan said was designed to send “a strong message to consumers, businesses, and the entire financial system that the U.S. government supports U.S. banks.”

- Under its new Commercial Paper Funding Facility, the Federal Reserve agreed to fund purchases of short-term commercial paper from high-quality issuers.
- Following a systemic risk determination by the Secretary of the Treasury (after consultation with the President), the FDIC board approved a limited guarantee of newly issued senior

unsecured debt of insured depository institutions and most U.S. holding companies (the Debt Guarantee Program), and another program that guaranteed certain noninterest-bearing transaction accounts at insured depository institutions (the Transaction Account Guarantee Program).

- Using its new authority, the Treasury Department established the TARP Capital Purchase Program, under which \$250 billion was earmarked for the purchase of senior preferred shares of solvent U.S. financial institutions. The top nine of those institutions, including the four largest national banking organizations (Bank of America, JPMorgan Chase, Citigroup, and Wells Fargo), would receive half of that amount. The remaining \$125 billion was designated for regional and community banking organizations. Institutions receiving TARP funds were required to provide warrants for preferred (nonvoting) shares

to the government and submit to terms set by the Treasury Department, which included limits on executive compensation, restrictions on dividend payments, and prohibitions on unjust corporate enrichment.

Congress required that TARP and ancillary programs were to be carried out in a manner that was expeditious and effective, both in restoring the nation's financial stability and protecting the interests of taxpayers. The Treasury Department's new Office of Financial Stability, created to implement TARP, had to be staffed and provisioned; eligibility, application, and review guidelines for institutions requesting Capital Purchase Program assistance had to be formulated; and reporting relationships between the Office of Financial Stability and its constituents in the Treasury Department and Congress had to be developed to ensure appropriate oversight and control of its activities.

The OCC played a major role in implementing TARP and developing a well-functioning Office of Financial Stability. Key OCC personnel were detailed to important positions and tasked with setting up accounting, finance, and reporting systems and developing internal communications systems and databases to help the new office track TARP transactions. OCC staff helped select asset managers to administer complex portfolios of assets that were to be purchased under TARP.

The OCC helped develop and implement guidelines for participants in the Capital Purchase





Program (CPP), which was designed to provide capital to viable financial institutions. By late October, the Office of Financial Stability released application forms, term sheets, and guidance for many institutions wishing to apply for TARP capital support. A three-step process was used to evaluate applications. First, the applicant's primary federal regulator conducted supervisory due diligence to determine whether the institution's financial condition met the Treasury Department's viability standards. Applications passing this first-round review were forwarded to the Treasury Department's TARP Investment Committee for review and preliminary approval and then sent to the Assistant Secretary of the Treasury for Financial Stability for final approval.

Applications that did not pass first-round review were subject to additional review and deliberation. Applications that did not

meet certain benchmarks went to the CPP Council, an interagency body formed to ensure that institutions across the financial system received consistent treatment. After deliberation, the Council could forward applications to the Treasury Department with recommendations or requests for more information. Applications from institutions that failed certain supervisory criteria were generally withdrawn from consideration.

Several OCC employees served on or provided staff support to the Council. The OCC also processed and evaluated within tight time frames more than 400 TARP applications from national banks and monitored the use of TARP proceeds by recipient institutions. OCC Examiners-in-Charge and examiners performed initial analyses and follow-up of applications. Assistant Deputy Comptrollers, who head the OCC's field locations, and district Deputy Comptrollers, who preside over the

OCC's four geographic districts, scrutinized applications before forwarding them for approval to the Senior Deputy Comptroller for Bank Supervision Policy.

Supervisory Capital Assessment Program

The CPP's goal was to stabilize the financial system by providing capital to healthy banks that required an extra level of capital for stability or lending. Continued economic slippage and deteriorating asset quality during the first quarter of 2009, however, raised questions as to whether TARP participants might require additional capital support.

On February 10, 2009, Secretary of the Treasury Timothy Geithner announced a program to conduct special forward-looking examinations, or "stress tests," of the 19 U.S.-owned bank holding companies with year-end 2008 assets exceeding \$100 billion. These stress tests formally became known as the Supervisory Capital Assessment Program. The program's goal was not only to determine how individual bank holding companies might fare under different scenarios, but to do it systematically, using a consistent methodology that would produce more meaningful results across institutions—something that had never before been attempted.

To compare the 19 participating bank holding companies, the federal banking agencies developed a standardized format for the banks' use in presenting loan loss projections for 12 different loan categories and other selected assets. The companies were asked to estimate

losses that would occur over the next two-year period, under two possible scenarios for the U.S. economy. The baseline scenario reflected a consensus view among professional economists about the anticipated depth and duration of the recession; the adverse scenario incorporated the possibility that the recession might be deeper and longer than expected and losses correspondingly greater. The companies also were asked to provide projections of resources—capital, revenues, earnings—available to absorb such losses.

The federal banking agencies then performed a detailed, firm-specific analysis of each of the participating companies, using proprietary data as well as information derived from ongoing supervisory activity. More than 150 senior examiners, economists, and financial analysts from the OCC, Federal Reserve, and the FDIC were organized into teams, each of which focused on a specific asset category—for example, consumer loans or commercial



Roughly half of the 19 holding companies were found to have passed [the stress test]—that is, they held sufficient capital to continue lending even under the adverse scenario.

real estate loans. Other teams analyzed each company’s securities portfolio, trading book, and loan loss reserve coverage. Technical advisory specialists in accounting, regulatory capital, and financial and macroeconomic modeling also contributed.

The agencies went to considerable lengths to ensure that the review process was rigorous, objective, independent, and as transparent as possible. The agencies applied pending accounting changes (Financial Accounting Standards 166 and 167), requiring the companies to bring many securitized assets onto their balance sheets, where they were subject to minimum capital requirements. This tougher standard lent credibility to the agencies’ assessments.

On May 7, 2009, less than 10 weeks after the stress tests began, the agencies released the results. Roughly half of the 19 holding companies were found to have passed—that is, they held sufficient capital to continue lending even under the adverse scenario. The others were given until June 8, 2009, to submit a plan to increase capital and until November 9, 2009, to implement it. Most had achieved their capital targets by the end of the fiscal year on September 30, 2009.

In spite of the difficult credit

cycle and earnings pressure facing national banks, as of June 30, 2009, 97 percent of all national banks satisfied the required minimum capital standards to be considered “well capitalized,” and 76 percent reported positive earnings.

Supervising Adverse Credit Quality

In some ways, 2009 was the story of two national banking systems. At the beginning of the year, with the focus on averting a possible collapse of the nation’s financial system and key funding markets, the largest banks were under siege while midsize and community banks held up well. By midyear, market conditions had stabilized, reducing fears of systemic failure. But the deepening recession began taking a toll on hundreds of smaller banks, particularly those with heavy concentrations of commercial real estate loans. For regulators and bankers, the focus shifted from stabilizing the financial markets and resolving interbank liquidity to the more traditional concern with identifying and managing problem credits.

Two high-profile reports on bank credit conditions—one reflecting the performance of large syndicated loans already on the books, the other addressing changing standards for new loans—provided a snapshot of conditions in the banking system. In their 2009



annual survey of shared national credit (loans of \$20 million or more held by three or more banks), the federal banking agencies—the OCC, Federal Reserve, FDIC, and the Office of Thrift Supervision (OTS)—recorded extensive deterioration. Meanwhile, in the OCC’s *Survey of Credit Underwriting Practices 2009*, which covered the quarter ending June 30, 2009, National Bank Examiners reported tightening terms and conditions for most loan products, reflecting the poor condition of the economy and lenders’ reduced appetite for risk. More conservative underwriting standards should prove to be a source of strength and stability to the banking system in future years.

As strains in the economy took their toll, the number of problem banks rose from historical lows. Moreover, a rising number of supervisory issues were serious enough to require formal enforcement action, including written agreements, cease-and-desist orders, and prompt corrective action directives. (Data on OCC

enforcement actions in 2009 are in Section Four, page 41.)

Meanwhile, national bank failures rose to 13 in fiscal year 2009 from five in fiscal year 2008. When a national bank fails, the OCC is responsible for minimizing the impact on customers and on the federal deposit insurance fund. To facilitate timely and cost-effective resolution of insolvent national banks, the OCC began to accept preliminary applications from potential bidders for insolvent bank assets and deposits. Under these new procedures, the OCC reviews applicants’ qualifications, capital, and business plan. If the applications pass review, the OCC may grant charters that remain on the shelf, ready to be activated, if the potential acquirers are successful in their bids.

The OCC strives to be consistent in its approach to bank supervision. In 2009, it continued to emphasize that bankers should make good loans to creditworthy borrowers, conduct sound analysis of financial and collateral information, work constructively with borrowers experiencing difficulties, and confront credit problems in a forthright and timely manner.

Improving Home Mortgage Disclosure Act Compliance

Consistent with its commitment to enforcing compliance with financial consumer protection laws and regulations, the OCC introduced a new pilot program to better identify disparities related to fair lending risk.

The Home Mortgage Disclosure Act (HMDA) requires financial

institutions to collect and furnish data about the mortgage loans they make, including race, ethnicity, and gender of borrowers, and purpose of the loans (purchase, refinance, or home improvement). While these data are a valuable tool in identifying possible fair lending violations, they can be misleading because the credit information banks use to make loan decisions is not included in the HMDA data that banks collect. Absent that information, HMDA data may suggest potential illegal discrimination where none exists.

The OCC’s new approach requires large banks to augment HMDA data with information relating to borrower credit factors (loan-to-value and debt-to-income ratios and credit scores); the distribution channel for the loan (bank branch, broker, or correspondent); and the characteristics of the loan itself (conforming or nonconforming, fixed or variable rate, government-insured or not). Examiners and economists sift through this data before starting the examination, enabling them to better target products and portfolios that contain anomalies.

This approach has been shown to generate fewer false positives, making fair lending compliance more efficient and risk-based. “The OCC does not tolerate discrimination in lending in any form,” said Ann Jaedicke, the OCC’s Deputy Comptroller for Compliance Policy. “Improvements in our processes for fair lending examinations will help us better enforce fair lending laws for all Americans.”

Strengthening Communities in Troubled Times

Since its enactment in 1977, the Community Reinvestment Act (CRA) has helped bring billions of dollars in lending and investment to the country's neediest communities. Nonetheless, some blame CRA for the collapse of the subprime mortgage market. Comptroller Dugan categorically rejected such suggestions, pointing out that loans made by institutions for CRA purposes performed as well as or better than non-CRA loans and much better than mortgage loans by lenders not subject to CRA requirements.

Government programs are helping banks address the credit needs of struggling neighborhoods and small businesses while operating in a safe and sound manner. In one such program, the Small Business Administration partners with lenders to finance small business plant and equipment; program enhancements extended support to new and existing assets, allowing businesses to refinance and restructure eligible debt. Incentives such as these helped persuade many banks that had not made a Small Business Administration loan in many years to participate in the program once again.

The credit crisis caused a significant dip in investment in affordable housing. Investments in low-income housing tax credits by banks and other corporate investors were projected to drop by more than half in 2009. The OCC is working to acquaint bankers, through nationwide seminars, local outreach, and its publications program, with opportunities to leverage new and existing federal funding and financing tools to help rehabilitate and reuse foreclosed single family housing. Such activities not only help stabilize communities and protect existing investments but may also qualify the bank for CRA consideration.



Comptroller Dugan inspects an affordable housing project in Dallas, Texas.

Revitalizing Housing Finance

Essential to the stabilization of the financial system were actions designed to address the proximate causes of the crisis: declining house prices, rising mortgage delinquencies and foreclosures, and consequent losses to lenders. National banks avoided the riskiest of the subprime lending that fueled the bubble, but no financial institution was immune from the fallout. The housing crisis also caused widespread personal hardship and damaged public confidence in the financial system.

Reviving the housing markets depended, in part, on unclogging the credit channels that normally sustain it. This effort advanced on several fronts. New Federal Reserve programs provided billions of dollars in liquidity for housing finance. In November 2008, the OCC joined other federal agencies in reminding banks of their responsibility to meet the needs of creditworthy borrowers. The interagency statement noted that programs like TARP were “designed to help support responsible lending activities of banking organizations, enhance their ability to fund such lending, and enable banking organizations to better meet the credit needs of households and businesses.” Yet, with many businesses and households rebuilding their balance sheets, it was especially important for banks to reaffirm their commitment to sound underwriting and risk management practices. Timothy W. Long, the OCC's Senior Deputy Comptroller for Bank Supervision Policy and Chief National Bank Examiner, conveyed this message

in March 2009 to the U.S. House Committee on Financial Services. In the course of their supervisory activities, OCC examiners worked to ensure that national banks understood that message.

Helping Struggling Homeowners

The search for fair and effective ways to help homeowners facing foreclosure, while also protecting the interests of taxpayers and investors, was one of the year's most ambitious and important activities. A succession of private and government-sponsored initiatives launched during the year to provide mortgage modifications that could prevent foreclosure and keep borrowers in their homes.

Two new Treasury Department programs were established for at-risk homeowners:

The **Home Affordable Refinance Program** provides refinancing assistance to homeowners with loans owned or guaranteed by Fannie Mae or Freddie Mac.

The **Home Affordable Modification Program** helps at-risk homeowners by providing a framework for consistent handling of loan modifications.

The OCC participated in efforts to craft balanced guidelines and guidance for lenders in connection with these programs. In June 2009, the banking agencies issued an interim final rule providing that mortgages modified under this program qualify for the same capital treatment as the same loan before modification, an incentive for institutions concerned that restructured loans would entail

higher capital requirements. By the end of the fiscal year, 27 servicers, responsible for handling more than 85 percent of all mortgage loans, participated in the Home Affordable Modification Program.

Meeting the demand for loan modifications through the Home Affordable Modification Program and lenders' proprietary loan modification programs posed an enormous challenge. Bank systems could not keep pace with borrowers seeking modifications, but with experience lenders gradually improved their ability to handle consumer demand. Additional resources were deployed to enable servicers to process applications in a timely manner, although challenges remain. Still, foreclosures mounted, and there was a pressing need to identify the characteristics of a successful loan modification, that is, on the specific provisions that most increase the likelihood that a modification would work to keep borrowers in their homes.

As discussed in last year's Annual Report, the OCC and OTS collect and publish detailed mortgage-loan performance data in their quarterly *Mortgage Metrics Report*. The report provides data on more than 35 million loans, or 60 percent of all mortgages serviced in the United States.

In light of the emerging focus on loan modifications, the agencies expanded their data-gathering activities to include trends in the types of modifications being undertaken by servicers and how those modifications affected borrowers' payments and behavior. The data showed that while loan modifications increased in number, their performance improved only slightly; more than half of the loans modified were 30 or more days delinquent after six months. The conclusion was that the best performing modifications were those that resulted in the biggest reductions to borrowers' monthly payments. Drawing on this evidence, mortgage servicers

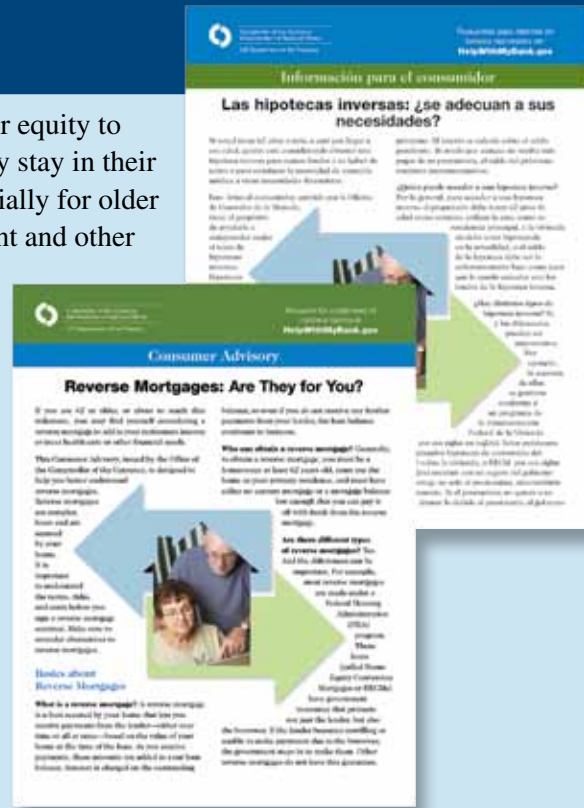


OCC volunteers assist in a Washington, D.C., neighborhood landscaping project.

Reverse Mortgages: Taking a Cautious Approach

Reverse mortgages are loans that let homeowners tap their equity to receive lump sum or periodic payments for as long as they stay in their homes. These loans became increasingly attractive, especially for older homeowners who saw them as a way to replace investment and other income lost in a down economy. But as Comptroller Dugan told the regulatory compliance conference of the American Bankers Association in June 2009, while such mortgages may offer real benefits, they also possess “some of the same characteristics as the riskiest types of subprime home mortgages,” including high fees, complex terms, and the potential for abuse of vulnerable borrowers.

These characteristics made it imperative, he said, that reverse mortgage customers receive robust consumer protection. To that end, the OCC and the other banking agencies issued guidance on reverse mortgages to ensure that those useful products are marketed honestly, explained clearly, and not used for predatory purposes.



began to shift their approach, modifying more loans that resulted in significant payment reductions. Although mortgage delinquencies and foreclosures continued to rise in the third quarter, home retention actions were up significantly, and more than 78 percent of all new mortgage modifications resulted in a reduction in borrowers' monthly principal and interest payment.

Improved communications among mortgage services and between servicers and regulators was one of the most important outcomes of the collaboration that went into the *OCC and OTS Mortgage Metrics* reports. That communication facilitated the development of loan-default management practices in the best interests of lenders and borrowers.

Toward a More Safe and Secure Financial System

The year's events prompted intensified study on the structure and practice of banking and financial services regulation. The Joint Forum, a global body of senior banking, securities, and insurance supervisors chaired by Comptroller Dugan, focused on improving the regulation of financial conglomerates. The OCC also contributed to studies by the Financial Stability Forum, the Senior Supervisors Group, and the Basel Committee on Banking Supervision; helped develop recommendations on how future crises might be avoided; and implemented many of those recommendations into its own supervisory policies and procedures.

A strong consensus emerged on the importance of improving

liquidity risk management. As Senior Deputy Comptroller and Chief National Bank Examiner Tim Long testified before a subcommittee of the U.S. House Banking Committee in March 2009, bankers and bank supervisors clearly underestimated liquidity risk exposures when the crisis began. He pointed out that they did not have adequate plans in place to cope with funding interruptions as dramatic as those that occurred. To address this, the OCC introduced a program for its large-bank population that included intensified monitoring of bank liquidity, standardization of liquidity measures across institutions, and evaluation of banks' liquidity cushions and contingency plans in the regular course of their OCC supervision. In June 2009, the federal banking agencies released for public



Senior Deputy Comptroller and Chief National Bank Examiner Tim Long discusses the OCC's approach to bank supervision in testimony on credit availability.

comment the proposed *Interagency Guidance on Funding and Liquidity Risk Management*, which would bring the agencies' liquidity principles into conformance with the international guidance issued by the Basel Committee.

Capital and Reserves: Strengthening the Foundation

The financial crisis highlighted the critical role of bank capital as a bulwark against loss and insolvency. For more than two decades, U.S. banks have operated under a risk-based capital regime, based on the international framework established by the Basel Committee on Banking Supervision. That framework assigns risk weights to each asset on a bank's balance sheet, which determines how much capital the bank must hold against that asset. For example, cash and U.S. government securities, which are viewed as essentially risk-free, require no capital, while corporate loans entail a capital charge that varies according to the terms of the loan and the quality of the

borrower. The federal banking agencies adopted a revised capital regime for larger, more complex banks called Basel II, which is designed to make capital calculations more accurate and more sensitive to the risk to which banks were exposed. No U.S. banks were yet operating under the new regime when the financial crisis struck.

In July 2009, members of the Basel Committee on Banking Supervision—including the OCC—announced a series of measures designed to strengthen capital requirements for certain activities, mitigate excess cyclical-ity, and promote a more forward-looking approach. Risk weights for some securitized assets were increased, as were capital requirements to capture the credit risk of complex trading activities. Banks were called on to conduct more rigorous credit analysis of off-balance-sheet activities. And the Basel Committee on Banking Supervision emphasized the value

of the leverage ratio—a pure non-risk-weighted capital minimum—for countries that, unlike the United States, do not have such a backstop in place already. The OCC and other U.S. banking agencies are preparing to consider the adoption of these and other changes to the Basel II framework for U.S. institutions through the notice and comment process.

If capital is the bedrock of a bank's safety and soundness, loan loss reserves are “a front line of defense for absorbing credit losses before capital must do so,” as Comptroller Dugan said. Yet the financial crisis reemphasized a longstanding concern with the way banks reserve against potential loan losses. “Perversely,” the Comptroller said in a March 2009 speech to the Institute of International Bankers, “as the banking industry experienced a prolonged period of rising and record profits in the booming part of the economic cycle in the earlier part of this decade, the ratio



Comptroller Dugan addresses the American Bankers Association on the lessons of the financial crisis.

The OCC Fights Mortgage Fraud

In addition to providing sustainable mortgage restructuring and foreclosure relief, the OCC raised awareness of foreclosure “rescue” scams and refinance fraud. Aided by authority granted in the Fraud Enforcement and Recovery Act of May 2009, a number of federal and state departments and agencies teamed up to coordinate resources and information, alert financial institutions to new unlawful schemes, step up enforcement actions against violators, and teach consumers how to recognize fraudulent assistance programs.



The OCC played a prominent role in this government-wide effort. In April 2009, the agency issued a consumer advisory on the tactics being used to exploit struggling homeowners. The advisory was reinforced by a series of public service announcements that ran on radio stations and in newspapers around the country. These communications provided tips on reducing the likelihood of becoming a con artist’s next victim. The OCC advised consumers to be extremely cautious when dealing with people purporting to be mortgage or foreclosure consultants who demand up-front fees; to make mortgage payments only to the mortgage servicer unless the servicer agrees otherwise; and, most of all, to read and understand every document before signing.

U.S. Supreme Court Decision on the Dual Banking System

Fiscal year 2009 saw important developments in the evolving relationship between state and federal banking authorities.

On June 29, the U.S. Supreme Court delivered its decision in the case of *Cuomo v. Clearing House Association*. The case involved an attempt by the New York State Attorney General to obtain non-public information from national banks in connection with an investigation over alleged fair lending violations. The banks and the OCC argued that the state’s demand was an illegal encroachment on the OCC’s exclusive “visitorial” powers to inspect, examine, supervise, and regulate.

The Supreme Court agreed with the OCC that the New York Attorney General could not proceed as he had attempted to do but clarified the scope of the OCC’s exclusive visitorial powers and concluded that those powers would not block a state law-enforcement official from bringing an action in court against a national bank to enforce an applicable state law.

The *Cuomo* ruling represented the Supreme Court’s latest effort to clarify the federal-state relationship and maintain the equilibrium that has been the hallmark of the dual banking system for nearly 150 years.





President Obama being briefed on financial stabilization and recovery efforts by Comptroller Dugan and other members of the administration's economic team.

of loan loss reserves to total loans went *down*, not *up*—even though there was broad recognition that the cycle would soon have to turn negative.” When it did, and loan losses started rising, bankers who were under-reserved had to drastically increase provisions through withdrawals from capital.

Comptroller Dugan, who co-chairs a working group of the Financial Stability Board focused on reserve policies, suggested a better way. He proposed giving bankers the flexibility to use more forward-looking estimates of loan losses than is possible under the current rules, which require that provisions be limited to losses that can be documented as “already incurred.” He also called for an adjustment in regulatory policy to qualify loan loss reserves for more favorable treatment as a part of banks’ capital structure, giving bankers greater incentive to add to their reserves.

Regulatory Restructuring

The financial downturn highlighted gaps in the U.S. financial regulatory structure, particularly

in regard to the nonregulated or lightly regulated off-balance-sheet vehicles, investment banks, and nonbank mortgage brokers and originators, where many of the problems began.

The Treasury Department’s comprehensive proposal for regulatory restructuring, released in June 2009, touched off a vigorous national discussion on what a new regulatory structure should look like. One provision called for creation of a Consumer Financial

Protection Agency that would assume responsibility from the banking agencies for consumer compliance supervision and rule-making. The proposal also called for consolidation of the OCC and the OTS.

As variants of the Treasury Department proposal emerged over time, the OCC and Comptroller Dugan sought to focus on core principles: the inextricable connection between bank safety and soundness and consumer protection, the indispensable role of the prudential supervisor in any regulatory regime, the avoidance of redundancy and regulatory overlap, and the need for uniform standards applicable to *all* financial providers. In particular, Comptroller Dugan spoke to the importance of preserving the principle of uniform *national* standards for financial products and services offered across state lines in *national* markets—a principle that has been central to the economic prosperity of the United States throughout its history.



Comptroller Dugan testifies on regulatory restructuring.

“Sir, we cannot maintain our nationality unless
we establish a sound and stable financial system.”

—*Senator John Sherman, debate on the
National Currency Act, February 10, 1863*



Section Two: Condition of the National Banking System

The combination of financial crisis and economic recession cut sharply into bank earnings in 2009. Provision expenses, which again rose much faster than revenues, were the most important factor that depressed earnings. Sharply higher credit losses, which began in consumer lending, extended to business lending as well, and charge-off rates reached post-1990 highs for most loan categories. The industry's overall charge-off rate was on course to see its highest level since 1934.

In the first two quarters of 2009, net income at national banks recovered from the low level of the fourth quarter of 2008, yet remained 53 percent below the level of a year earlier. Profitability as measured by return on equity stood at 0.3 percent for the second quarter of 2009, slightly up from its low in the fourth quarter of 2008 but still near its 35-year low. At community banks, return on equity continued to fall through the first half of 2009.

Loan Loss Provisions and Credit Quality

Higher loan loss provisions have been the largest factor behind reduced earnings. With the noncurrent loan rate reaching its highest level in at least 25 years, provision expenses at national banks surged from \$15 billion in the first half of 2007 to \$89 billion in the first half of 2009. Over the same period, pre-provision revenues, net of expenses (operating profit) grew only modestly, resulting in a drop in after-tax net income from \$47 billion to \$6 billion.

Credit losses continued to rise in the first half of 2009, increasing

by 78 percent over the same period in 2008. After rising first for loans related to residential real estate, losses increased for business loans as well. For example, in the first half of 2009, charge-offs on commercial and industrial



loans increased by 170 percent from the same period a year earlier, compared with 56 percent for real estate loans, although the level of real estate charge-offs was much higher.

By mid-2009, charge-off rates for all major loan categories except commercial real estate had reached post-1990 highs. Charge-off rates are expected to remain high at least through 2010, with the rate for commercial real estate loans anticipated to increase particularly

quickly. Even with much higher provisioning, reserves have not kept pace with deteriorating credit quality as the ratio of reserves to noncurrent loans has fallen steadily for four years.

Revenue

At the largest national banks, net interest income rose by 5 percent in the first half of 2009 from the same period in 2008, as rising net interest margins more than offset a fall in earning assets. Net interest margins rose because of the steep drop in funding costs provided by lower interest rates and strong flows of low-cost deposits. At smaller banks, margins fell but assets rose modestly, resulting in flat net interest income. Because net interest income is a large share of revenues for these smaller banks, the result was weak growth in net income.

At the largest national banks, non-interest income rose in the first half of 2009, as trading revenue recovered from a massive fourth-quarter loss. Noninterest income also received an early-year boost from a wave of mortgage refinancing, which helped servicing

and fee income rise from the previous year. Large banks sold many of the refinanced loans to the government-sponsored enterprises, with gains on loan sales further adding to profits. The income boost from the spurt in refinancings continued into the second quarter, but this source of revenue growth then declined. Large banks also benefited from strong gains in trading income

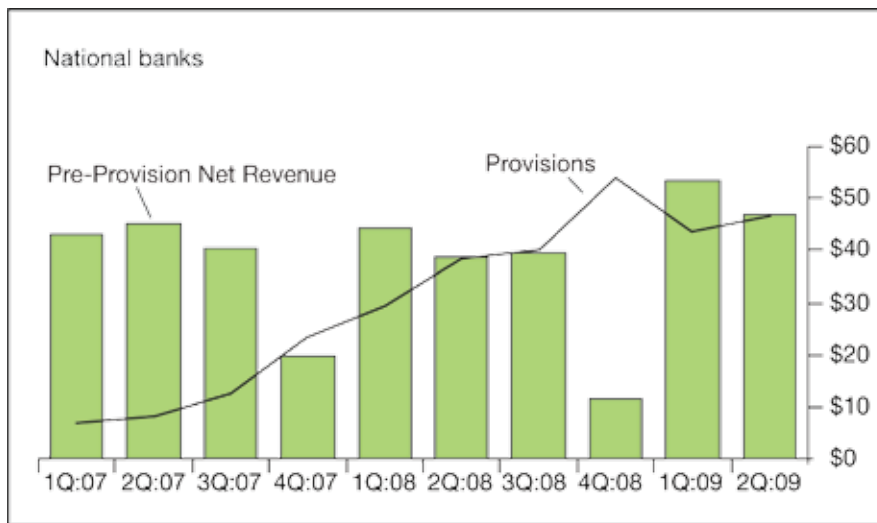
in the first quarter, although this volatile income stream subsided in the second quarter. Noninterest income also rose at smaller banks, though it makes up only a minor share of their revenues.

Funding and Loan Growth

Core deposits generally flow into banks during recessions, as savers turn away from low yields on more risky assets, such

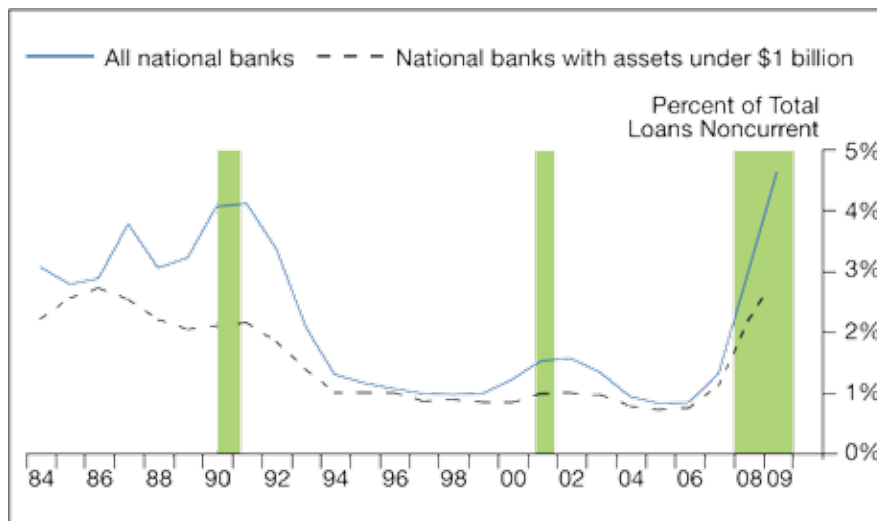
as bonds and equities, to the relative safety of bank deposits. In this downturn, noninterest bearing deposits have increased, especially for large banks, giving them a significant funding cost advantage; small banks have not benefited to the same extent. The surge in noninterest-bearing deposits, which began at the end of 2008, continued in 2009. Much of this swing was a direct result of the financial crisis, as households and firms fled money market funds and other short-term alternatives in favor of deposits at banks. Historical experience has shown that recessions accompanied by financial crises last longer and run deeper than other recessions. Following this financial crisis, consumers are still deleveraging, driving down household debt from historically high levels, and trying to rebuild their savings. This implies slower-than-usual growth in consumer spending (and borrowing), even as the economy in the aggregate begins to grow again. Moreover, business spending ordinarily lags behind consumer spending coming out of recessions. With consumers still nervous about their jobs and still trying to rebuild their savings, a turnaround in business spending could come later than usual this cycle. Further, large and medium-size firms can continue to go to the bond markets to lock in low-rate, long-term financing, bypassing the banks—though sub-investment grade corporations still face some resistance in issuing new bond debt at reasonable interest rates. For banks, these trends mean that loan growth on both the consumer and business sides could remain weak for some time.

Figure 1: Strong Revenues in First Half of 2009 Offset High Provision Expenses (in Billions)



Source: Integrated Banking Information System (OCC).

Figure 2: Noncurrent Loans in 2009 Reach Highest Level in 25 Years



Source: Integrated Banking Information System (OCC).

Note: The green bars represent periods of economic recession.

The strength and sustainability of the economic recovery will be the key factor driving loan demand in the near term.

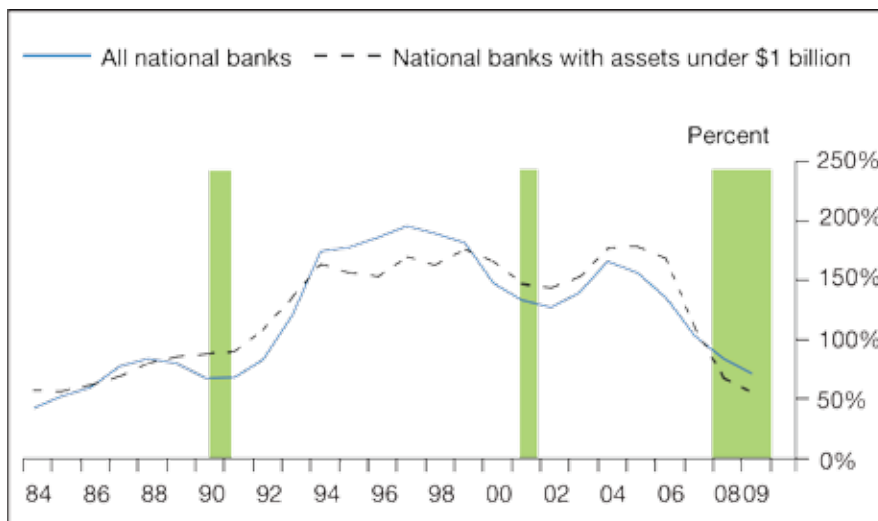
In the recovery from the 1990-1991 recession, banks were able to increase net interest income even as their earning assets (mostly loans) fell. The Federal Reserve continued to lower short-term interest rates significantly in the early years of the recovery, though loan losses remained elevated and total lending was on the decline. Falling rates led to a strong upswing in net interest margins that more than made up for the decline in earning assets. Even facing large credit losses, banks were still able to grow their way back to health.

That scenario seems less likely to repeat itself in this recovery. With short-term interest rates already

near zero, further large declines in funding costs are unlikely. Indeed, if a weak recovery suppresses loan demand and interest rates stay low, low-cost noninterest-bearing deposits could exit the banking system, seeking

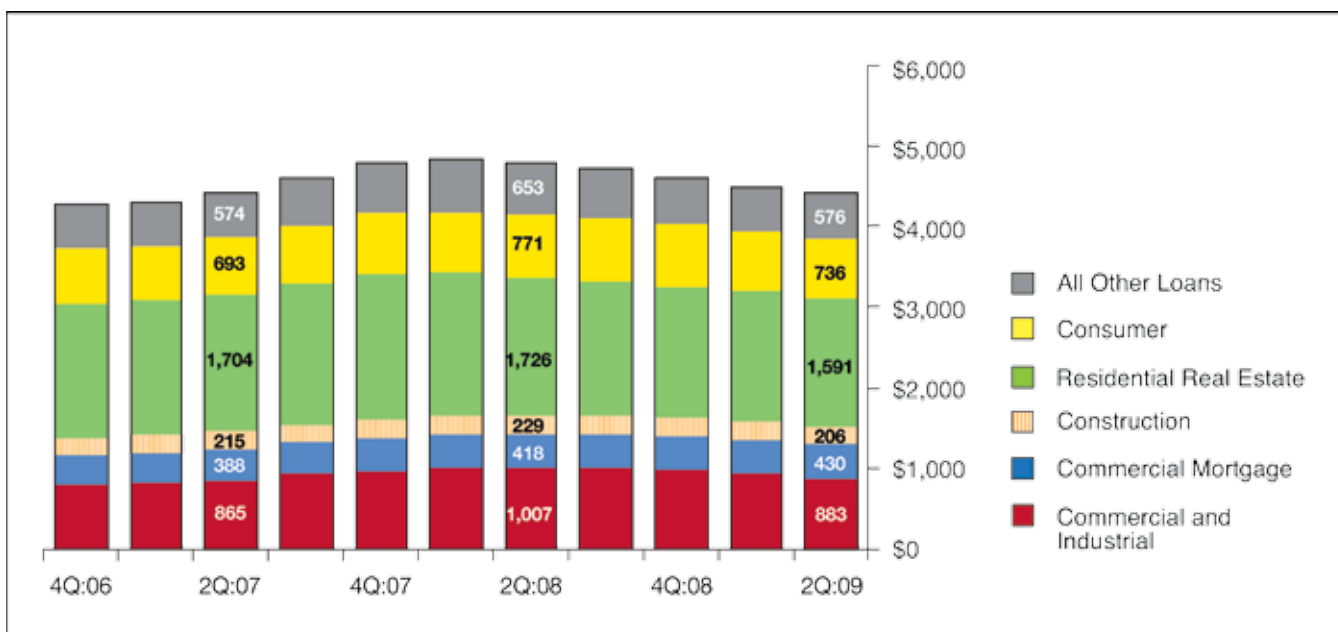
higher yields elsewhere. Such a combination of events could compress net interest margins, making it difficult for banks to find the additional net interest income needed to offset continued high levels of provisions.

Figure 3: Ratio of Reserves to Noncurrent Loans Continues to Decline, Even With Increased Provisioning



Source: Integrated Banking Information System (OCC).
 Note: The green bars represent periods of economic recession.

Figure 4: Loans on Balance Sheets of National Banks (in Billions)



Source: Integrated Banking Information System (OCC).



“Under this system of banking, every bank is under the watchful eye of the Comptroller of the Currency. The banks are as accessible to him as they would be if all were placed under the same roof.”

—*Silas M. Stillwell, “Private History of the Origin and Purpose of the National Banking Law,” 1879*

Section Three: Executive Leadership

John C. Dugan Comptroller of the Currency

John C. Dugan was sworn in as the 29th Comptroller of the Currency in August 2005.

The Comptroller of the Currency is the administrator of national banks and chief officer of the OCC. The OCC supervises 1,565 federally chartered commercial banks and 51 federal branches and agencies of foreign banks in the United States, comprising more than two-thirds of the assets of the commercial banking system. The Comptroller also is a director of the Federal Deposit Insurance Corporation and NeighborWorks® America.

In September 2007, Comptroller Dugan was named Chairman of the Joint Forum, which operates under the aegis of the Basel Committee on Banking Supervision, International Association of Insurance Supervisors, and the International Organization of Securities Commissions. The Joint Forum includes senior financial sector

regulators from the United States, Canada, Europe, Japan, and Australia and deals with issues common to the banking, insurance, and securities industries, including supervision of conglomerates.

Before his appointment as Comptroller, Mr. Dugan was a partner at the law firm of Covington & Burling, where he chaired the firm's Financial Institutions Group and specialized in banking and financial institution regulation.

He served at the U.S. Department of the Treasury from 1989 to 1993 and was appointed Assistant Secretary for Domestic Finance in 1992. While at the Department of the Treasury, Mr. Dugan had extensive responsibility for policy initiatives involving banks and financial institutions, including the savings and loan cleanup, Glass-Steagall and banking reform, and regulation of government-sponsored enterprises.



From 1985 to 1989, Mr. Dugan was Counsel and Minority General Counsel for the U.S. Senate Committee on Banking, Housing, and Urban Affairs. There, he advised the Committee as it considered the Competitive Equality Banking Act of 1987, the Proxmire Financial Modernization Act of 1988, and the Financial Institutions Reform, Recovery, and Enforcement Act of 1989.

Thomas R. Bloom

Senior Deputy Comptroller Management and Chief Financial Officer

Thomas R. Bloom joined the OCC in December 2003 as Senior Deputy Comptroller for Management and Chief Financial Officer.

Mr. Bloom has responsibility for the OCC's planning and financial management and human resources functions, including diversity programs and management services.

He serves as a member of the OCC's Executive Committee, as the Chair of the Budget and Finance Subcommittee, as the Co-Chair of the Investment Review Board, and as a member of the Technology and Human Capital subcommittees. Additionally, he chairs the OCC 401(k) Investment Board.

In October 2008, Mr. Bloom was asked to serve as the interim Chief Financial Officer for the new Office of Financial Stability, an office within the U.S. Department of the Treasury created to oversee the Troubled Asset Relief Program and other emergency authorities and facilities to help restore liquidity and stability to the U.S. financial

system. Mr. Bloom established the Chief Financial Officer function of that new organization and served as interim Chief Financial Officer there until January 2009.

Before joining the OCC, Mr. Bloom was the director of the Defense Finance and Accounting Service. In that capacity, he supervised the day-to-day accounting and finance activities of the U.S. Department of Defense. The Defense Finance and Accounting Service employs about 15,000 Department of Defense civilian and military personnel at 26 locations throughout the United States, Europe, and the Pacific.

Mr. Bloom has extensive experience in finance and accounting, having served as Chief Financial Officer at both the U.S. Department of Commerce and the General Services Administration.

He also served as the Inspector General at the U.S. Department of Education, where he conducted audits and investigations, managed fraud-control programs, and designated security services related



to programs and operations for the department.

From 1988 to 1993, Mr. Bloom was a Senior Audit Partner, Director of Governmental Services, and Co-Chair of Financial Institution Practice with the national certified public accounting firm Kenneth Leventhal & Company in its Dallas, Texas, and Washington, D.C., offices. Advancing from an accounting fellow and later the Chief Accountant for the Federal Home Loan Bank System from 1985 to 1988, Mr. Bloom became the Senior Accounting and Auditing Authority for regulation of the troubled thrift industry. From 1976 to 1985, Mr. Bloom was associated with two international accounting firms, rising from junior staff accountant to partner.

Office of Management

The Senior Deputy Comptroller directs the Office of Management and serves as the OCC's Chief Financial Officer. Striving for an environment of continuous improvement, the Office of Management delivers responsive, best-value business solutions to those who ensure public confidence in the national banking system. Our goal is to maximize direct mission hours

and minimize the resource impact of the Office of Management's programs. The office

Meets the OCC's human resources needs by

- Staffing positions
- Managing national recruitment programs
- Managing employee retention programs

- Brokering short-term staffing needs
- Managing the performance management process

Acquires OCC assets by

- Managing the acquisition process to procure goods and services
- Collecting OCC revenues and managing its cash

Moves staff to new locations by

- Managing the staff relocation process
- Administering the travel program

Houses staff by

- Designing and building out leased space
- Administering leases and managing OCC facilities
- Arranging space and logistics for OCC conferences and meetings

Develops staff by

- Assessing training needs
- Developing training programs
- Delivering training programs

Protects people and assets by

- Managing physical and personnel security
- Managing the emergency preparedness program
- Managing its Equal Opportunity Employment program
- Managing the financial resources and budgeting program
- Evaluating the OCC's financial controls

Compensates employees by

- Managing the compensation program
- Managing the employee benefits programs
- Managing the time-reporting and payroll process
- Reimbursing travel expenses

Manages vendor relationships by

- Managing OCC contracts
- Paying invoices

Informs management by

- Providing financial reports
- Managing the financial audit
- Providing information and researching issues

Jennifer C. Kelly Senior Deputy Comptroller Midsize/Community Bank Supervision

Jennifer C. Kelly assumed the position of the Senior Deputy Comptroller for Midsize/Community Bank Supervision in April 2008.

Ms. Kelly is responsible for the OCC's Midsize/Community Bank program, supervising more than 1,500 banks and about 1,600 employees. She is a member of the OCC's Executive Committee and the OCC's Committee on Bank Supervision.

Previously, Ms. Kelly served as Deputy Comptroller for Midsize

and Credit Card Bank Supervision, where she was responsible for supervision and oversight of the OCC's Midsize and Credit Card Bank Supervision programs.

Before that, Ms. Kelly served as the Deputy Comptroller for Continuing Education, with responsibility for the training and development of the OCC's examining staff.

Ms. Kelly joined the OCC in 1979 as an Assistant National Bank Examiner in San Francisco and was commissioned as a National Bank Examiner in 1983. She has a broad supervision background,



including extensive experience in problem bank supervision and policy development. Also, she completed a year-long assignment in the Bank of England's bank supervision department in London.

Midsize/Community Bank Supervision

Midsize/Community Bank Supervision supervises more than 1,500 nationally chartered banks and trust companies. Community bank operations are overseen by examiners who report to Deputy Comptrollers located in four district offices—New York, Chicago, Denver, and Dallas. A fifth Deputy Comptroller oversees a national portfolio of midsize banks with assets exceeding \$10 billion, either in a single charter or aggregated among several charters. Midsize banks are defined by the size of their markets, which can be multistate or regional, and the scope of their operations. Full-time Examiners-in-Charge supervise these banks continuously. The Deputy Comptrollers report to the Senior Deputy Comptroller for Midsize/Community Bank Supervision, who is located at the OCC's headquarters in Washington, D.C.

The Midsize/Community Bank Supervision Department's primary objectives are to

- Develop individual bank supervisory strategies that use risk-based principles to efficiently supervise banks; present clear and logical plans for the scope of activities, documentation of conclusions, and support for actions taken in all banks; and tailor appropriate oversight to all national banks.
- Focus supervisory attention on banks' abilities to develop sound enterprise-wide practices and effectively manage all relevant risks.
- Proactively assess and address the capabilities of management and the sufficiency of capital based on banks' risk profiles.
- Identify banks that may be vulnerable to existing or emerging risks using supervisory analytical tools, filters, and risk-based analytics.
- Address supervisory issues in banks with portfolios affected by adverse economic and market conditions and take actions to resolve problem bank situations effectively and on a timely basis.
- Encourage banks to continue to meet the needs of creditworthy borrowers and comply with the Community Reinvestment Act, fair lending, and other consumer protection laws.
- Ensure that Troubled Asset Relief Program recipients comply with all applicable program restrictions and requirements.

Mark Levonian Senior Deputy Comptroller Economics

Mark Levonian is Senior Deputy Comptroller for Economics. He joined the OCC in 2004 as Deputy Comptroller for Modeling and Analysis and is a member of the OCC's Executive Committee.

Mr. Levonian was Vice President in Banking Supervision and Regulation at the Federal Reserve Bank of San Francisco from 1997 to 2004 and a research officer and senior economist in the economic research department of the Federal

Reserve Bank of San Francisco from 1990 to 1997 and was the managing officer of the Banking Studies Department at the Federal Reserve Bank of New York from 1987 to 1990. In 1992, he worked as senior economist at the Reserve Bank of Australia, where he conducted research and supported development of a framework for assessing capital for market risk at Australian banks. He has provided technical advice to the central banks of Russia and Belarus in



the areas of early identification of problem banks and regulation of market risk and has consulted for the International Monetary Fund and the World Bank. He has

taught courses in capital markets and financial institutions at the University of California's Haas School of Business in Berkeley.

Mr. Levonian's professional research has resulted in publications and presentations in various areas including deposit-insurance

pricing, risk modeling, residential mortgages, market discipline in banking, capital allocation techniques, agricultural lending, banking in transition economies, and resolution of problem banks. Most recently, he has been a frequent speaker at industry conferences on risk quantification, model

validation, and the Basel II capital framework.

Mr. Levonian has a Ph.D. in economics from the Massachusetts Institute of Technology and a bachelor's degree in economics from the University of California at Berkeley.

Economics

The Economics Department's mission is to deliver economic and quantitative analysis to policymakers and bank supervisors. Through its various divisions, the department supports on-site and off-site supervision of banks, provides current economic analysis, supports policy development, and conducts original research to support the OCC's mission.

International Analysis and Banking Condition Division provides analysis of economic and financial market developments that may pose systemic risks for national banks, reports quarterly on the condition of the national banking system, produces analysis to support the formulation and implementation of supervisory policy focused on internationally active national banks and federal branches, administers the Interagency Country Exposure Review Committee, and provides ongoing support to the OCC's National Risk Committee.

Industry and Regional Analysis Division informs agency management and bank supervision of emerging issues across a broad range of credit risks in the banking system, provides tools to support credit risk assessments in bank portfolios, and provides regional assessments of changing economic conditions and the implications for national banks.

Data and Analytical Support Division develops and manages information resources and platforms that support research, analysis, and modeling; and implements tools and techniques to support evolving methods of analysis.

Risk Analysis Divisions—Enterprise, Credit, Compliance, and Market are the four Risk Analysis Divisions that operate as a group within the Economics Department. The four divisions' major functions include providing direct support to examiners and policymakers on risk modeling, decision modeling, and modeling to detect compliance with fair lending laws; developing models and tools for use by examiners; consulting with examiners and policymakers; delivering educational outreach and training for examiners; and conducting original research and analysis to support these primary functions.

Policy Analysis Division provides short-term analyses and conducts longer-term research on public policy issues related to banking. The division prepares research papers, memorandums, and briefing documents; provides analytical consulting services to departments throughout the OCC; and prepares economic analyses of the effect of regulations on banks and private sector entities.

Timothy W. Long
Senior Deputy Comptroller
Bank Supervision Policy and Chief National
Bank Examiner

Timothy W. Long assumed the position of Senior Deputy Comptroller for Bank Supervision Policy and Chief National Bank Examiner in April 2008.

Mr. Long is a member of the OCC's Executive Committee, is Chairman of the OCC's Committee on Bank Supervision, and is responsible for formulating policies and procedures for supervision and examination of national banks. From 2002 to

2008, Mr. Long served as Senior Deputy Comptroller for Midsize/Community Bank Supervision.

Previously, he served as Deputy Comptroller for Large Bank Supervision and held field positions in the Western and Southwestern Districts. He was also a member of the Multinational Banking Division, where he served as Examiner-in-Charge of NationsBank, Wells Fargo Bank, and First Interstate Bank.



Bank Supervision Policy and Chief National Bank Examiner

The Office of the Chief National Bank Examiner is dedicated to developing consistent and effective supervisory and accounting policy guidance and interpretation for examiners and bankers. The office coordinates the OCC's participation in interagency and international supervisory groups, including the Federal Financial Institutions Examination Council, the President's Working Group, and the Basel Committee on Bank Supervision. The office encompasses a number of risk units.

Bank Information Technology Division is unique in that it has policy and supervisory office responsibilities. Division staff is responsible for

- Developing and issuing information technology-related policy, guidance, and examination procedures for the bank information technology industry and field examiners.
- Assisting examiners in consistently applying information technology-related policy and guidance to all banks.
- Supervising the largest technology service providers included in the Multi-Regional Data Processing Servicers program and the performance of Shared Application Software Reviews.

- Coordinating, with the staff of Continuing Education and division sponsors, the development of all information technology-related training for precommissioned examiners and examiners who perform information technology examinations at least 25 percent of the time.

Capital Policy Division staff is extensively involved in interagency rulemaking efforts regarding Basel II implementation and potential changes to the domestic risk-based capital framework for non-Basel banks and is responsible for

- Identifying issues and developing policies to address risks to bank capital.
- Developing and maintaining capital regulations and interpretations.
- Developing dividend policy.
- Ensuring that capital policies are effectively communicated and implemented.
- Providing technical assistance to examiners, bankers, and advisors on risk-based capital issues.
- Coordinating the work of the OCC's Capital Steering Committee, most of which is done in close collaboration with other units of the OCC and other U.S. and international regulatory agencies.

- Participating on interagency and international working groups addressing numerous ongoing policy and implementation issues for Basel II.

Commercial Credit Risk Division staff maintains expert knowledge of industry practices, emerging issues, and trends in commercial credit and is responsible for

- Identifying and analyzing areas of significant risk.
- Developing the OCC’s supervisory policy.
- Developing industry advisories and policy guidance for bankers and examiners.
- Advising the OCC’s senior management.

Compliance Policy Department staff provides guidance to the banking industry and to examiners to promote compliance with consumer protection laws, the Community Reinvestment Act, fair lending laws, Bank Secrecy Act, and anti-money laundering laws. The staff also develops tools to assist the OCC in assessing risks related to consumer protection, the Community Reinvestment Act, fair lending, and anti-money laundering. The staff also is responsible for

- Developing and maintaining examination procedures for use by field examiners.
- Identifying potential compliance risks and designing responses.
- Representing the OCC at interagency meetings and outreach events.
- Developing OCC bulletins on laws and regulation and OCC policy changes.
- Providing guidance to bankers, examiners, and industry trade groups on compliance issues.
- Providing subject matter expertise in the development and delivery of training.

Financial Markets Group is responsible for

- Assessing trading and counterparty credit risks at large trading banks.
- Working with the National Risk Committee to identify areas of emerging risks.
- Maintaining contacts in financial markets (loans and derivatives) to assess developments that may affect national banks.
- Serving as a consultant to senior OCC management field staff, attorneys, and bankers on trading and counterparty credit risk policies.
- Representing the OCC on interagency working groups.

Market Risk Division comprises two teams—balance sheet management and asset management—and maintains expert knowledge of industry practices, emerging issues, and trends in balance sheet management and asset management. Division staff also is responsible for:

- Identifying and analyzing areas of significant risk.
- Developing policy or changes in policy.
- Implementing policy and conducting follow-ups to ensure its effectiveness.
- Serving as a consultant to senior OCC management, field staff, attorneys, and bankers.
- Representing the OCC on interagency working groups.

Office of the Chief Accountant develops and publishes policy guidance on bank accounting issues and is responsible for

- Coordinating accounting and financial reporting issues, including call report requirements.
- Interpreting and developing guidance on generally accepted accounting principles related to banking, and identifying emerging accounting issues.
- Working with the Financial Accounting Standards Board, the U.S. Securities and Exchange Commission, and other banking agencies to develop generally accepted accounting principles.
- Participating on the Basel Committee on Banking Supervision to seek harmonization of international accounting standards through work with the International Accounting Standards Board.

Operational Risk Policy Division staff develops and publishes policy guidance on operational risk issues and is responsible for

- Developing examination handbooks, OCC bulletins, and other guidance relating to corporate governance and audit practices, community and large bank supervision-by-risk, insurance activities, payments systems, de novo banks, and affiliate transactions.
- Monitoring trends in operational risk exposures and application of risk-based supervision principles through analysis of trends in examination results.
- Representing the Office of the Chief National Bank Examiner on interdepartmental issues and working groups.

- Developing, advising, and supporting efforts on Basel II Operational Risk Implementation to include interagency alignment efforts, interdepartmental coordination, on-site examination support, and resolution of interpretive matters.

Retail Credit Risk Division comprises two teams— (1) mortgage banking and securitization and (2) retail credit. Division staff maintains expert knowledge in industry practices, emerging issues, and trends

in mortgage banking and securitization and in retail credit. Division staff is responsible for

- Developing the OCC’s supervisory policy.
- Developing industry advisories and policy guidance for bankers and examiners.
- Providing staff assistance in support of district and large bank supervision priorities and initiatives undertaken by other OCC departments.
- Providing advice to the OCC’s senior management.
- Identifying and developing training for field staff.

Bajinder N. Paul Chief Information Officer

Bajinder N. Paul was selected as the Chief Information Officer in October 2007.

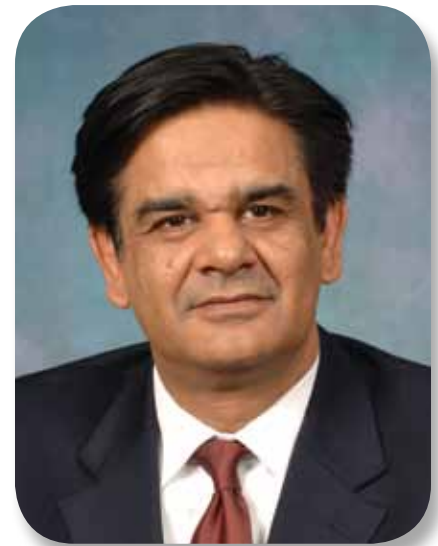
As Chief Information Officer, Mr. Paul leads all OCC information technology programs, supporting the agency’s mission of ensuring the safety and soundness of national banks as well as fair and equal access to financial services for all Americans.

He serves as a member of the OCC’s Executive Committee, as the Chair of the Technology and Systems Subcommittee, as the Co-Chair of the Investment Review Board, and as a member of the Enterprise Governance subcommittee.

Mr. Paul has spent more than 20 years managing information technology programs and organizations, in the private sector and in the federal government.

Before joining the OCC, he served as Acting Chief Information Officer and Deputy Chief Information Officer of Information Technology Operations at the U.S. Department of Housing and Urban Development. While there, he provided strategic and operational leadership in delivering centralized services to the entire agency to achieve goals and objectives to promote citizen access to services.

Prior to joining the Department of Housing and Urban Development,



Mr. Paul held key information technology management positions at the U.S. Department of Justice and at the Bureau of Alcohol, Tobacco, Firearms, and Explosives. While at the latter agency, Mr. Paul provided strategic, managerial, and operational oversight of information technology services and solutions.

Information Technology Services

Information Technology Services provides technology products, services, and programs that help the OCC achieve its mission. Information Technology Services consists of four primary units:

Business Services Delivery is the primary Information Technology Services service provider for managing new and strategic information technology initiatives throughout their full information technology

life cycle. Business Services Delivery manages the agency's enterprise architecture to ensure that new investments align with business unit requirements. The unit operates a series of internal programs, such as enterprise testing, configuration management, and quality management to minimize errors in hardware and software releases. It develops sourcing strategies in partnership with the OCC's Acquisition Management department for all major information technology services and technology procurements. Finally, Business Services Delivery provides frontline customer support to all employees and business units for the OCC's standard personal computer desktops, laptops, and applications.

Information Risk Management protects information resources against loss, misuse, or unauthorized access. The unit develops standards for the cost-effective implementation of information security controls, delivering high-quality information security services

to the agency and integrating information security into existing work processes.

Information Systems is responsible for the operation and maintenance of individual software and enterprise data solutions that support the OCC's business unit objectives. The unit manages enterprise information through the standardization and reuse of agency data and maintenance of corporate data repositories. It gathers customer requirements, plans and deploys software enhancement projects, and maintains legacy application and enterprise solutions.

Technical Infrastructure provides a secure, high-availability data delivery platform that supports the needs of OCC staff, stakeholders, and customers. The unit operates and maintains the OCC's Data Center as well as a distributed technical infrastructure that processes, shares, and secures the large volume of highly sensitive data used by the OCC workforce.

Douglas W. Roeder

Senior Deputy Comptroller
Large Bank Supervision

Douglas W. Roeder was appointed Senior Deputy Comptroller for Large Bank Supervision and officially assumed that position in October 2001.

Mr. Roeder is responsible for examinations and supervision activities in the largest national banks and federal branches and agencies. In addition, he oversees operations of the International Banking Supervision group and the OCC's London office. He serves as

a member of the OCC's Executive Committee and the OCC's Committee on Bank Supervision.

Previously, he served four years as Deputy Comptroller for Large Bank Supervision. Before that, he was the OCC's Examiner-in-Charge at Fleet Financial Group Inc., Boston, Massachusetts, and the former Shawmut National Corp. in Hartford, Connecticut. He also served as Field Manager of the OCC's Boston Field Office



and held both regional bank and problem-bank analyst positions in the Chicago District Office.

Large Bank Supervision

The Large Bank Supervision Department supervises the 15 largest and most complex national banking companies, as well as foreign-owned U.S. branches and agencies. Because of the vast—and, in some cases, global—operating scope of large banks, the OCC assigns examiners to work full-time on the premises of the largest institutions. Working on-site enables the OCC to maintain an ongoing program of risk assessment, monitoring, and communications with bank management and directors. Large Bank Supervision’s philosophy is one of continuous supervision to assess the condition and risk profile of the bank and to take appropriate supervisory and regulatory action when necessary.

Supervisory work in many of the large banks has an expanding international emphasis, requiring increasing interaction with foreign supervisors. International Banking Supervision, a group within Large Bank Supervision, serves as the primary point of contact for international banking supervisors and as a clearing-house for various requests the agency receives, such as for supervisory information, bilateral meetings, and participation in international working groups. Large

Bank Supervision also oversees operations in the OCC’s London office and the Shared National Credit program. Large banks are centrally supervised through the OCC headquarters office in Washington, D.C., by Deputy Comptrollers under the direction of the Senior Deputy Comptroller for Large Bank Supervision. The OCC’s Large Bank Supervision program is designed to

- Determine the condition of the bank and the risks associated with current and planned activities, including relevant risks originating in subsidiaries and affiliates.
- Evaluate the overall integrity and effectiveness of risk management systems, using periodic validation through transaction testing.
- Determine compliance with laws and regulations.
- Communicate findings, recommendations, and requirements to bank management and directors in a clear and timely manner and obtain informal or formal commitments to correct significant deficiencies.
- Verify the effectiveness of corrective actions, or, if actions have not been undertaken or accomplished, pursue timely resolution through more aggressive supervision or enforcement actions.

John G. Walsh Chief of Staff and Public Affairs

John G. Walsh became Chief of Staff and Public Affairs in October 2005.

In this role, Mr. Walsh serves as the Comptroller of the Currency’s senior advisor on all matters, represents the Comptroller in internal and external meetings and events, provides expert policy advice, and oversees the agency’s Public Affairs, Congressional Liaison, Ombudsman, and Banking Relations functions.

Mr. Walsh joined the OCC from the Group of 30, a consultative group that focuses on international economic and monetary affairs. He joined the Group in 1992 and became Executive Director in 1995. Mr. Walsh served on the Senate Banking Committee staff from 1986 to 1992 and as an International Economist for the U.S. Department of the Treasury from 1984 to 1986. He also served with the Office of Management and Budget as an International



Program Analyst with the Mutual Broadcasting System and in the U.S. Peace Corps in Ghana.

Office of the Chief of Staff and Public Affairs

The **Chief of Staff** directs, coordinates, and manages the day-to-day activities of the Comptroller's Office, oversees projects of special interest to the Comptroller, and serves as liaison with OCC staff and the staffs of other regulatory agencies.

The OCC's **Ombudsman** reports through the Chief of Staff to the Comptroller for all matters except national bank appeals. The Ombudsman is responsible for the national bank appeals process and the Customer Assistance Group. The Ombudsman also supervises the OCC's **Enterprise Governance** unit, which serves as the agency liaison with three entities having oversight authority: the Department of the Treasury's Office of Inspector General, the U.S. Government Accountability Office, and the Office of Management and Budget.

Public Affairs supports the agency's efforts and activities with such parties as the banking industry, news media, Congress, other government agencies, and the public. Public Affairs oversees outreach efforts to foster and develop relationships with the constituencies involved in banking; manages news media relations; tracks legislative developments and responds to congressional inquiries and requests for support; directs the preparation and dissemination of information to help bankers, examiners, community organizations, and the general public understand the national banking system, the OCC's supervisory activities, and related issues; ensures fair and easy access to the agency's public information; and coordinates internal communications. Public Affairs consists of six units:

Banking Relations builds and maintains relationships with financial services industry stakeholders, primarily commercial banks and their representatives.

Communications provides information and publications for the public and for internal use and performs editorial and design services for a variety of publications.

Congressional Liaison is responsible for the OCC's relations with Members of Congress, congressional committees, and congressional staff and for providing analysis and advice to the Comptroller and senior policymakers on congressional activities.

External Outreach and Minority Affairs aims to broaden awareness within the OCC and the banking industry about current minority banking issues, as well as to promote understanding in minority communities of the OCC's mission.

Press Relations works with the media to ensure fair, accurate, and informed coverage of the OCC and issues involving the national banking system.

Public Affairs Operations provides agency support through internal communications, Web and electronic publishing, communications planning and analysis, and national media outreach and advertising.

Julie L. Williams

First Senior Deputy Comptroller and Chief Counsel

Julie L. Williams was named First Senior Deputy Comptroller and Chief Counsel in September 1999.

Ms. Williams was initially appointed Chief Counsel of the OCC in June 1994, with responsibility for all of the agency's legal activities, including legal advisory services to banks and examiners, enforcement and compliance activities, litigation, legislative initiatives, and regulation of securities and corporate practices of national banks. She was designated as the agency's statutory "First Deputy" by the Secretary of the Treasury in 1997 and two years later was named First Senior Deputy Comptroller by Comptroller John D. Hawke Jr.

From April 1998 until December 1998, and again from October 2004 until August 2005, Ms. Williams served as the Acting Comptroller of the Currency.

In addition to overseeing the Office of the Chief Counsel, Ms. Williams supervises the Law Department, the Licensing Department, and the

Community Affairs Department. As the Comptroller's top legal advisor, she is a member of the Executive Committee, providing advice and guidance on major issues and actions. She joined the OCC in May 1993 as Deputy Chief Counsel with responsibility for special legislative and regulatory projects.

Since September 2001, Ms. Williams has served as the OCC's representative on the board of directors of NeighborWorks America, a nonprofit organization created by Congress to support community-based revitalization efforts. She was designated Vice Chairman of the board in 2007.

Before joining the OCC, Ms. Williams served in a variety of positions at the Office of Thrift Supervision and its predecessor agency, the Federal Home Loan Bank Board. From 1991 to 1993, she was Senior Deputy Chief Counsel, responsible for regulations and legislation, corporate and securities law, and general legal issues. She previously



served as Deputy Chief Counsel for Securities and Corporate Analysis. She joined the Federal Home Loan Bank Board in 1983, after working as an attorney with the law firm of Fried, Frank, Harris, Shriver & Kampelman in Washington, D.C., from 1975 to 1983.

Ms. Williams is the author of "National Banks and the Dual Banking System (OCC, 2003)," "Savings Institutions: Mergers, Acquisitions and Conversions" (Law Journal Seminars-Press, 1988), and numerous articles on the regulation of depository institutions, financial services, securities, and corporate law matters.

Office of the Chief Counsel

The Office of the Chief Counsel supervises the OCC's Law, Licensing, and Community Affairs departments.

Law Department enforces compliance with banking requirements by national banks through administrative actions, provides for protection and fair treatment of bank customers through application of consumer laws and regulations, and investigates federal securities law violations and enforces applicable securities laws. The department develops opinions on national bank powers and activities, issues regulations, and provides technical assistance in the development of legislation to modernize banking law. OCC attorneys also negotiate international banking agreements and represent the Comptroller in litigation involving the OCC's operations.

Licensing Department charters national banks and approves activities and structure changes that support a safe and sound national banking system. Corporate applications and other activities of national banks primarily are governed by 12 CFR 5. The department establishes policies and procedures for applications, analyzes and processes applications according to published standards, and ensures that significant legal

and policy issues in applications receive prompt and thorough review. Recent enhancements to the bank chartering process include elimination of bank licensing fees, assistance in the form of draft application and business plan review, and expedited review of offering materials.

Community Affairs Department supports national banks in the provision of community development financing and retail services to underserved communities and consumers. The department provides training and technical assistance and administers the national bank community development investment authority under 12 CFR 24. Many part 24 investments are eligible for positive consideration under Community Reinvestment Act requirements. Department staff members provide technical assistance for the OCC's Community Reinvestment Act examinations and conduct individual consultations with national banks. The department sponsors meetings for the exchange of ideas among lenders, community groups, and government officials and issues publications and Web-based resources. Recently, the department has been active in the areas of mortgage foreclosure mitigation and financial literacy.

“The national [banking] system will create a reliable and permanent influence in support of the national credit and ... a great benefit to the people.”

—Abraham Lincoln, *State of the Union address*, December 6, 1864



Section Four: OCC Snapshots

Office of the Chief Counsel: Licensing and Enforcement Activities

The Licensing Department establishes policies and procedures for the OCC's processing of corporate applications involving national banks and foreign banking organizations. Corporate structure

changes requiring OCC approval include new bank charters, conversions to the national charter, national bank merger (or business combinations), corporate reorganizations, changes in control, operating subsidiaries, branches, relocations, capital and subordinate debt issuances, and applications from foreign branches and agencies.

The department works closely with bank supervision and other OCC units on the viability and legality of proposals for dealing with problem banks. Proposed restructuring arrangements that may avoid bank failures and their associated costs can include mergers and purchases and assumptions. To address potential safety and soundness

Figure 5: Corporate Application Activity, Fiscal Years 2008 and 2009

	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2009 Decisions			
	Applications Received	Approved	Conditionally Approved ⁴	Denied	Total ⁵	
Branches	1,251	906	911	4	1	916
Capital / Sub Debt	170	303	111	5	0	116
Change in Bank Control	5	15	2	1	0	5
Charters	33	21	4	12	1	17
Conversions ¹	7	13	0	5	0	5
Federal Branches	3	1	0	2	0	2
Fiduciary Powers	11	16	3	0	0	4
Mergers ²	46	57	45	1	0	46
Relocations	291	230	235	0	0	235
Reorganizations	111	81	58	11	0	69
Stock Appraisals	1	1	0	0	0	0
Subsidiaries ³	23	57	49	3	0	54
12 CFR 5.53 Change in Assets	5	6	0	2	0	2
Limited National Bank Upgrade	0	3	0	0	0	0
Total	1,957	1,710	1,418	46	2	1,471

Source: OCC data for fiscal years 2008 and 2009.

¹ Conversions to national bank charters.

² Mergers include failure transactions when the national bank is the resulting institution.

³ This count does not include 84 After-the-Fact notices received in fiscal year 2008 and 70 After-the-Fact notices received in fiscal year 2009.

⁴ On April 14, 2000, the Licensing Department issued guidance imposing a special condition for approvals of bank charters that requires prior OCC no-objection to significant deviations or change in the operating plan during the first three years of operation.

⁵ Total includes alternative decisions or no-objections.

Figure 6: Licensing Actions and Timeliness, Fiscal Years 2008 and 2009

		Fiscal Year 2008			Fiscal Year 2009		
		Number of Decisions	Within Target		Number of Decisions	Within Target	
Application Type	Target Time Frames in Days ¹		Number	Percent		Number	Number
Branches	45 / 60	1,259	1,222	98	916	888	97
Capital / Sub Debt	30 / 45	76	70	92	116	112	97
Change in Bank Control	NA / 60	4	3	75	5	4	80
Charters ²		28	17	61	17	10	59
Conversions	30 / 90	8	6	75	5	1	20
Federal Branches	NA / 120	3	2	67	2	0	0
Fiduciary Powers	30 / 45	3	3	100	4	4	100
Mergers	45 / 60	46	44	96	46	43	93
Relocations	45 / 60	283	274	97	235	230	98
Reorganizations	45 / 60	111	98	88	69	58	84
Stock Appraisals	NA / 90	0	0	0	0	0	0
Subsidiaries	NA	18	15	83	54	50	93
12 CFR 5.53 Change in Assets	NA / 60	4	4	100	2	2	100
Limited National Bank Upgrade ²		0	0	0	0	0	0
Total		1,843	1,758	95	1,471	1,402	95

Source: OCC data for fiscal years 2008 and 2009.

Note: Most decisions (98 percent in 2008 and 97 percent 2009) were decided in the district offices and Large Bank Licensing under delegated authority. Decisions include approvals, conditional approvals, and denials. NA means “not applicable.”

¹ Those filings that qualified for the “expedited review” process are subject to the shorter of the time frames listed. The longer time frame is the standard benchmark for more complex applications. New time frames commenced in 1997 with the adoption of the revised part 5. The target time frame may be extended if the OCC needs additional information to reach a decision, permits additional time for public comment, or processes a group of related filings as one transaction.

² For independent charter applications, the target time frame is 120 days. For holding-company-sponsored applications, the target time frame is 45 days for applications eligible for expedited review and 90 days for all others.

**Figure 7: Change in Bank Control Act, Fiscal Years 2005–2009
(Notices Processed With Disposition)**

Year	Received	Acted On	Not Disapproved	Disapproved	Withdrawn
2009	10	7	7	0	3
2008	5	4	4	0	0
2007	6	6	0	0	0
2006	9	8	4	0	4
2005	17	17	17	0	0

Source: OCC data for fiscal years 2005 through 2009.

problems, the OCC may impose conditions upon bank transaction approvals covering capital and liquidity arrangements and deviations from business plans. Figure 6 reflects licensing activity in fiscal years 2008 and 2009. The OCC may take formal enforcement actions to ensure compliance with federal banking law by national banks and officials. These actions include formal written agreements, cease-and-desist orders, civil money penalties, and prohibition orders. Officials of national banks may be the subject of these actions for misrepresentation in regulatory filings, self-dealing, or misappropri-

Figure 8: List of Applications Presenting Community Reinvestment Act Issues Decided, Fiscal Year 2009

Bank, City, State	Interpretations and Actions	Document Number
Peoples Bank, National Association, Marietta, Ohio (Branch)	October 2008	CRA Decision No. 144
Whitney National Bank, New Orleans, Louisiana (merger)	November 2008	CRA Decision No. 145

Source: OCC data for fiscal years 2009.

ating banks funds, or other improper practices in loan administration, use of bank premises, bank expenses, and exercise of fiduciary duty. The OCC also takes action against institution-affiliated parties

whose actions in a professional capacity in relation to the bank meet certain standards of misconduct or are otherwise illegal. Figure 9 summarizes enforcement actions taken in fiscal year 2009.

Figure 9: OCC Enforcement Actions, Fiscal Year 2009

Type of Enforcement Action	Against Banks	Against Institution-Affiliated Parties
Cease-and-Desist Orders	40	13
Temporary Cease-and-Desist Orders	0	0
12 USC 1818 Civil Money Penalties	4	17
12 USC 1818 Civil Money Penalties Amount Assessed	\$ 5,388,835	\$ 236,000
Flood Insurance Civil Money Penalties	7	0
Flood Insurance Civil Money Penalties Amount Assessed	\$ 258,535	\$ 0
Restitution Orders	1	2
Amount of Restitution Ordered	\$ 25,000,000	\$ 4,008,000
Formal Agreements	89	0
Capital Directives	2	N/A
Prompt Corrective Action Directives	5	N/A
Individual Minimum Capital Ratio Letters	132	N/A
Safety and Soundness Plan	1	N/A
Memorandums of Understanding	53	0
Commitment Letters	12	N/A
Suspension Orders	N/A	1
12 USC 1818 Removal/Prohibition Orders	N/A	26
12 USC 1829 Prohibitions	N/A	254
Letters of Reprimand	N/A	20
Total Enforcement Actions	346	333

Source: OCC data for fiscal year 2009.

Note: N/A means "not applicable."

The OCC Anticipates and Plans for Future Staffing Needs

Maintaining continuity of mission at a time of demographic transition is a challenge that many government agencies face. The OCC is no exception. Over the next five years, almost a third of the OCC's examining force will be eligible to retire. With the impending loss of experienced bank examiners, the agency must ensure that sufficient numbers of people with the necessary skills are available to oversee the national banking system. The OCC focuses on three

key areas: hiring entry-level examiners, as well as supervisory personnel with financial industry experience; maximizing employee retention; and developing requisite examiner skills.

Since 2005, the OCC has hired more than 800 new examiners, including 158 in fiscal year 2009. The agency's nationwide hiring program combines on-campus recruiting and open solicitation of applications through the Office of Personnel Management's USAJobs.gov. This two-pronged approach gives the OCC access to high-caliber and diverse candidates. In considering applicants for bank examiner positions, the OCC

also looks at such factors as the flexibility to travel and relocate, both of which have been found to be indicators of job satisfaction.

The agency recognizes that meeting future staffing needs requires concerted measures for employee retention. Failure to retain valuable human resources deprives the agency of expertise and represents a substantial loss of investment in recruitment, training, and development.

To promote higher retention rates among all employees, the OCC offers competitive compensation, benefits, and work-life balance programs. Additionally, the OCC devotes significant resources to mentoring and supporting newly hired examiners to ensure that they gain the skills and experiences necessary to become commissioned National Bank Examiners. That process typically takes about five years and culminates in the successful completion of the Uniform Commission Examination.

The OCC must have the staffing levels and examiner skill sets needed to carry out the agency's supervisory responsibilities. The OCC continuously assesses the expertise it needs to effectively supervise national banks of all sizes and complexity, including such specialty areas as asset management, bank information technology, operational risk, consumer compliance, capital markets, mortgage banking, retail credit, and commercial credit. Comprehensive training and development programs are in place to ensure that examiners develop the expertise necessary to meet the OCC's needs in all skill areas.



The OCC recruits prospective bank examiners at the Haskell Indian Nations University, Lawrence, Kansas.



Comptroller Dugan visits with associate National Bank Examiners at the OCC Career Forum, designed to assist them in preparing for the Uniform Commission Examination.

Financial Literacy Is Key to Personal Financial Success

The costs of financial illiteracy can be high. When people sign mortgage agreements they don't understand, move their hard-earned funds into dubious investment products, incur avoidable bank fees, or spend beyond their means, they compromise their futures. Using banks, keeping budgets, managing checkbooks, or saving for retirement can make enormous positive difference in the quality of people's lives.

That's why the OCC works to promote national banks' financial literacy initiatives. The agency highlights initiatives that are particularly

successful in encouraging better money management through savings, credit, and checking products.

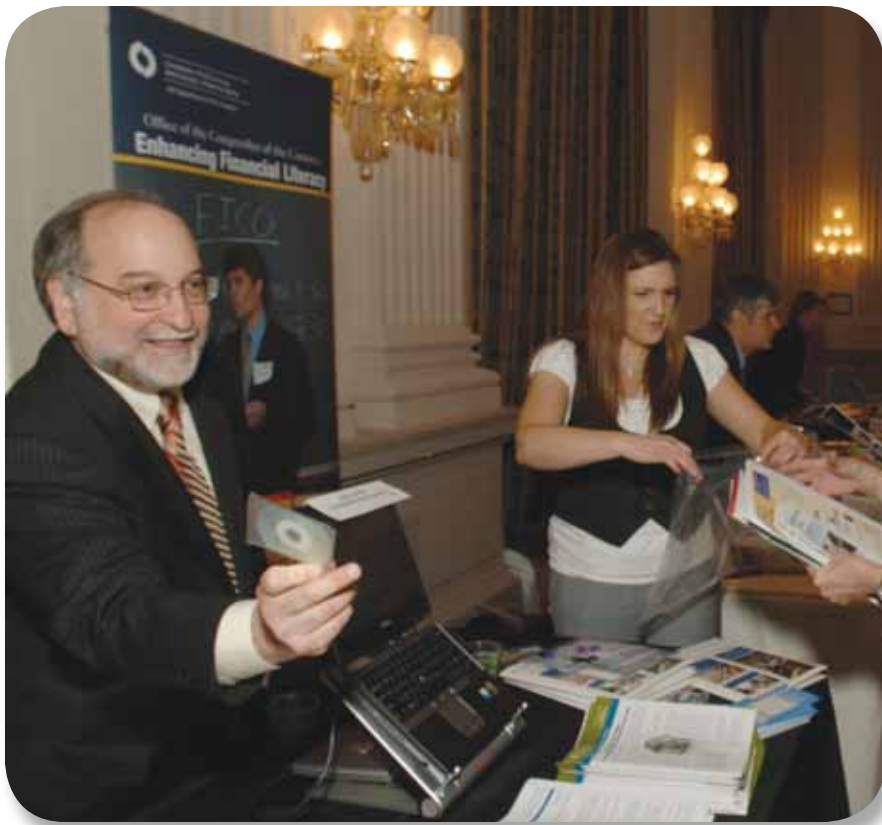
"The OCC has done much in recent years to share financial knowledge and best practices, to leverage resources, and to build financial literacy partnerships," said Barry Wides, the Deputy Comptroller for Community Affairs. "We concentrate our financial literacy activities on encouraging the efforts of national banks and building public awareness about the numerous financial education resources and tools that are now available."

Banks can earn positive consideration under the Community Reinvestment Act for creating financial literacy initiatives serving low- and moderate-income populations. OCC staff members around

the country consult with national banks about financial literacy and education initiatives that banks might undertake as part of their Community Reinvestment Act programs. In connection with these efforts, the OCC's Community Affairs Department posts on OCC.gov a Financial Literacy Web Resource Directory to help banks wishing to make financial literacy an integral part of their Community Reinvestment Act programs.

For consumers, the OCC's award-winning Web site, HelpWithMyBank.gov, is a clearinghouse that provides answers to frequently asked questions on such topics as credit cards, deposit accounts, mortgages, consumer loans, and insurance. The site enables consumers to file complaints about national banks and provides consumer tips and links to the OCC's Customer Assistance Group and other regulatory agencies and resources. In addition, the OCC produces consumer advisories on commonly misunderstood financial products. The OCC helps raise awareness about these issues through radio public service announcements and placement of articles in local newspapers.

The OCC also publishes a bimonthly *Financial Literacy Update*. This electronic newsletter promotes financial literacy events, new initiatives of the OCC and other government agencies and organizations, and related resources. The OCC e-mails the newsletter to thousands of community development and financial literacy contacts.



Financial Literacy Day on Capitol Hill brings together providers of financial education, including the OCC.

“Financial literacy is the first step toward financial success for our kids and for many older consumers,” said Comptroller Dugan. “These programs spread the word that financial knowledge can help them protect, manage, and invest their money better.”

Ombudsman Addresses Consumer Complaints

The Customer Assistance Group of the OCC’s Office of the Ombudsman is the first point of contact for people in need of assistance in dealing with their banks. In the first three quarters of 2009, the Customer Assistance Group answered more than 61,000

customer inquiries and handled more than 40,000 complaints.

The office boosted its processing and information-sharing capabilities to cope with rising demand for its services. In February 2009, the OCC adopted an online complaint system that is faster, reduces mailing costs, and sharply reduces data-entry errors.

Given the number of regulatory agencies, some consumers are understandably confused when trying to find the proper agency to handle their complaints. To speed the handling of complaints mistakenly filed with the OCC, the Ombudsman has entered into memorandums of understanding with 45 states that spell out coordination protocols. To support

these agreements, the OCC created what it calls the Complaint Referral Express—an electronic complaint delivery system that speeds the exchange of misdirected complaints among the OCC, state banking authorities, and other federal agencies. The system protects the privacy of individuals while ensuring that complaints reach the right destination expeditiously. Since mid-2008, more than 8,000 consumer complaints, involving 27 state banking departments and other federal regulators, have been redirected using the system.

“Even in a financial crisis,” said Larry Hattix, the OCC’s Ombudsman, “our mission stays the same: we seek to ensure that national banks and customers of national banks receive fair and expeditious resolutions of their complaints.”

Information Technology Services: ‘Supporting the OCC’s Highly Mobile Workforce, Any Time, Anywhere’

A robust information technology environment is crucial to the OCC’s ability to perform its bank supervision and consumer protection responsibilities. The challenge grows when examiners are being called upon to assist in the supervision of a growing population of problem banks. These responsibilities require examiners to travel frequently and with little notice, increasing their dependence on

access to the OCC's mobile electronic communications network and supervisory tools.

To help the OCC meet the demand for information technology, Information Technology Services introduced new tools so agency employees anywhere in the world may search OCC databases and analyze bank records more readily and securely. Providing examiners with better technology enables them to make their on-site time more focused and productive. Information technology tools are especially important to examiners looking into critical and complex credit and capital market problems.

Progress in the information technology realm relies on feedback from field examiners and other OCC employees. To gain a better picture of technological needs, Information Technology Services commissioned an independent survey to measure employees' satisfaction with its services. Although Information Technology Services generally got high marks from users in such areas as technical knowledge, timeliness, and reliability, the survey identified several areas in need of improvement, particularly in hardware performance.

With this feedback, Information Technology Services adopted the Integrated Mobile Employee Technology Refresh and Optimization program to provide newer, faster, and more capable equipment across the OCC. The program includes hardware to improve broadband access for examiners by ensuring reliable

and secure connectivity with more choices among service providers.

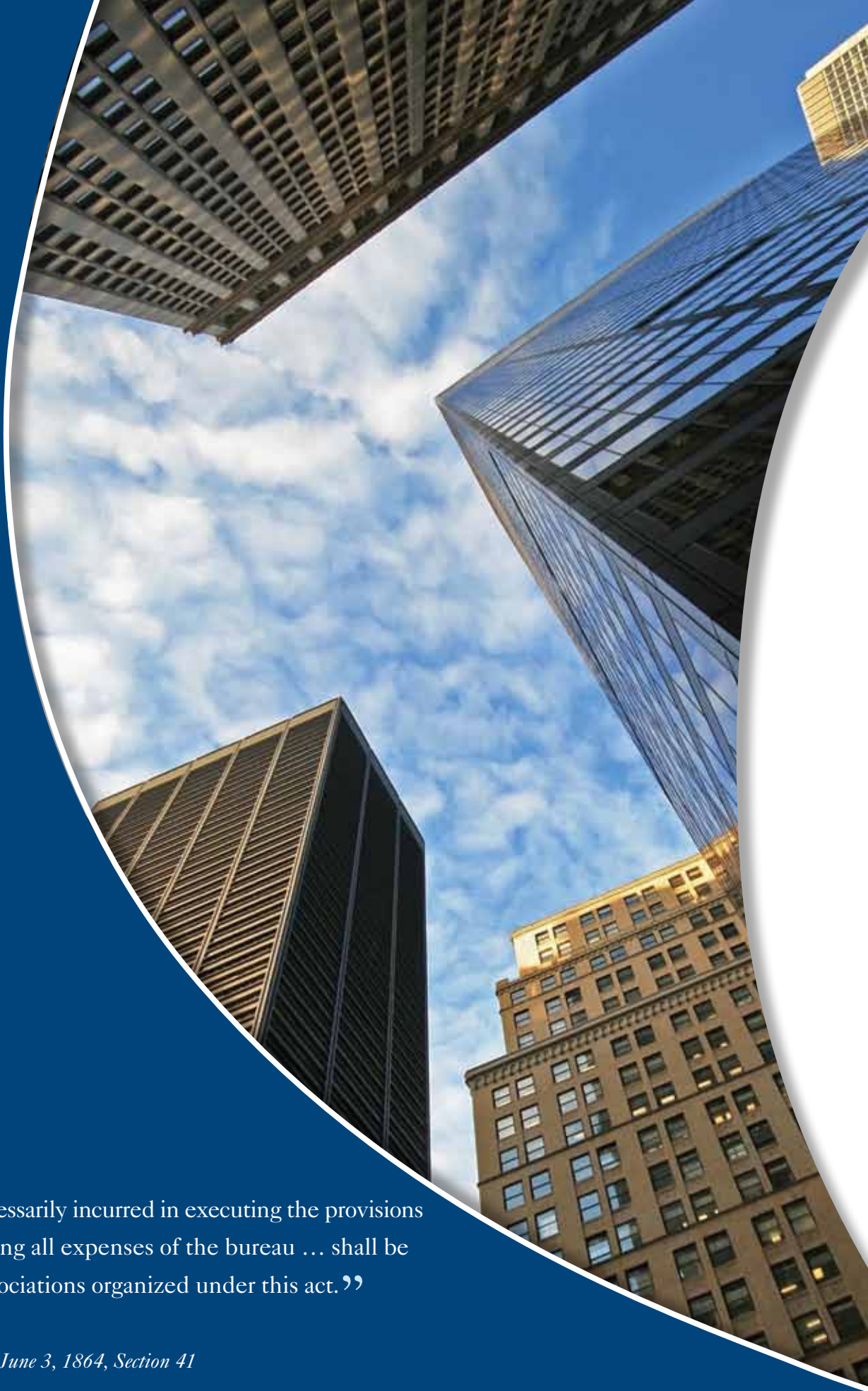
Advanced information systems supported OCC supervision at a critical time for the national banking system and the economy, performing the mission defined by Chief Information Officer Bajinder Paul: "To support our highly mobile work force any time, anywhere, using any computer securely and efficiently."

Improving Transparency and Access to Public Information

In a major step toward greater openness and access, the OCC completed a project to automate the way it receives, tracks, processes, and releases information under the Freedom of Information and Privacy acts. In the interests of greater transparency, the OCC began making an increasing number of documents available online. These include document collections that were formerly available only in hard copy and only on-site at the OCC's Washington headquarters.

Expanded access to OCC information comes at a time when demand for that information, from the general public, the legal and business communities, and the news media, is on the rise. Through the Freedom of Information Act process, bank customers, for example, may learn more about the status of a particular bank

or of a complaint filed with the OCC's Customer Assistance Group. Only 152 of the more than 2,700 requests for information under the Freedom of Information Act received in fiscal 2009 were rejected. By law, government information that relates to threats to national security, trade secrets, ongoing criminal investigations, and bank examinations may not be made public.



“The expenses necessarily incurred in executing the provisions of this act respecting all expenses of the bureau ... shall be collected from associations organized under this act.”

—*National Bank Act, June 3, 1864, Section 41*

Section Five: Financial Management Discussion and Analysis

Letter from the Chief Financial Officer

I am pleased to present the OCC's financial statements as an integral part of the fiscal year (FY) 2009 Annual Report. I am also pleased to report that for FY 2009 our independent auditors rendered an unqualified opinion with no material internal control weaknesses. The OCC's commitment to effective financial management and a strong internal control environment continues to be my highest priority.

The OCC's financial internal controls program is designed to meet the rigorous requirements mandated by the Office of Management and Budget's Circular A-123—Management's Responsibility for Internal Controls (A-123). First implemented in FY 2006, our A-123 program continues to evolve and provide us with meaningful input on how we can continue to strengthen our controls. This past year saw the implementation of continuous internal control testing in our Financial Management Division. In addition, the agency's purchase card program, contract administration program, and travel operations program were strengthened as a result of the financial internal controls program. The OCC was once again able to provide unqualified assurance that its internal control over financial reporting

was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting.

A strong internal control environment is complemented when a strong process improvement program exists. In FY 2005, the Office of Management adopted the Lean Six Sigma program to improve the effectiveness and efficiency of the OCC's administrative processes.

The program has continued to evolve and influence the culture of the agency. It is now the accepted practice in addressing process issues at the OCC. This past year, Lean Six Sigma process reengineering projects were completed in the Office of the Ombudsman, Information Technology Services, Office of Public Affairs, and the Office of Management.

In the past five years, 95 projects have been completed with annual cost or productivity savings in excess of \$9 million. Since the



program's inception, OCC has trained 69 individuals, of which 30 have been certified as either black or green belts in Lean Six Sigma. We also have two certified master black belts, the highest certification, on our staff. In FY 2009, the Office of Management began offering Lean Six Sigma training programs in-house and completed efforts to enable it to certify staff as meeting criteria as Lean Six Sigma "belts."

In conjunction with our Lean Six Sigma program, we adopted

The OCC was once again able to provide unqualified assurance that its internal control over financial reporting was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting.

a process maturity model to document all of the Office of Management's core administrative processes, identify key process owners, and move to a cross-functional view of our processes. With the new Administration's focus on process efficiency, we believe that we are well positioned to meet the challenges of improving the quality of our administrative processes while optimizing the costs of providing these services to the agency.

As a nonappropriated federal agency, the OCC receives its revenue through assessments on national banks and interest income received on investments. The OCC's balance sheet and annual operating budget is greatly influenced by the influx of assets into the national banking system over the past six years. While we anticipate the need to increase our bank supervision staff in FY 2010, the overall growth in the OCC budget will be moderate because of programs implemented in FY 2009 to contain the growth in information technology expenditures. The primary use of the agency's funds is for personnel costs, travel, and training. These three expense items accounted for almost 73 percent of the total FY 2009 operating

budget, and we anticipate the same for FY 2010. At the end of each year, excess funds are allocated to agency financial reserves.

The Budget and Finance Subcommittee, which I chair, closely monitors the overall financial condition of the OCC. During our monthly meetings, the subcommittee focuses on agency investment activities, office space needs, and financial reserves. The OCC invests its financial reserves in U.S. Treasury securities. Because interest rates are currently at historical lows, year-over-year decreases in interest income have resulted. Nevertheless, using a conservative laddering strategy, the portfolio continues to perform favorably against peer benchmarks. The subcommittee has also provided oversight to the increase in office space, which is directly correlated to the increases in staff. The subcommittee reviewed and approved several major office space projects during the past year and continued its focus on the expiring headquarters lease. Finally, the subcommittee closely monitors the OCC's financial reserves. These reserves play an integral role in the financial health of the agency and allow the OCC to plan for future needs without continuous changes

to the bank assessment rate structure. In FY 2009, the subcommittee approved the increased contribution of funds to our asset replacement reserve to ensure a smooth transition for financial needs, which will arise because of expiring office space leases and the replacement of fully depreciated and amortized assets. In addition, in the current uncertain environment, the reserves are available to address special one-time needs that may result from regulatory restructuring.

Because my highest priority is effective financial management and a strong internal control environment, we will continue to be vigilant in safeguarding the assets of the OCC. And, in conclusion, my approach to achieve this goal is to ensure that we have the finest people and resources dedicated to managing and monitoring the effective and efficient use of agency funds.



Thomas R. Bloom
Chief Financial Officer

Financial Highlights

Overview

The OCC received an unqualified opinion on its FYs 2009 and 2008 financial statements. The financial statements consist of Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, and Statements of Budgetary Resources. The OCC presents the financial statements and notes on a comparative basis, providing financial information for FYs 2009 and 2008. The financial statements were prepared from the OCC's accounting records in conformity with generally accepted accounting principles for U.S. federal agencies (federal GAAP). The financial statements, notes, and auditor's opinion begin on page 54. A summary of the OCC's financial activities in FYs 2009 and 2008 follows.

Assets

The OCC's assets include both "entity" and "non-entity" assets.

The OCC uses entity assets, which belong to the agency, to fund operations. The OCC acquires revenue through the collection of assessments from national banks and from other income, including interest on investments in U.S. Treasury securities. Non-entity assets are assets that the OCC holds on behalf of another federal agency or other third party. The OCC's non-entity assets are civil money penalties due the federal government through court-enforced legal actions. Upon collection, the OCC transfers these amounts to the General Fund of the U.S. Treasury.

As of September 30, 2009, total assets were \$1,069.0 million, an increase of \$85.8 million or 8.7 percent from the level at September 30, 2008. This increase is primarily attributable to the growth in the OCC's investment portfolio. Investments and accrued interest increased by \$76.7 million, or 8.4 percent, due to an increase in

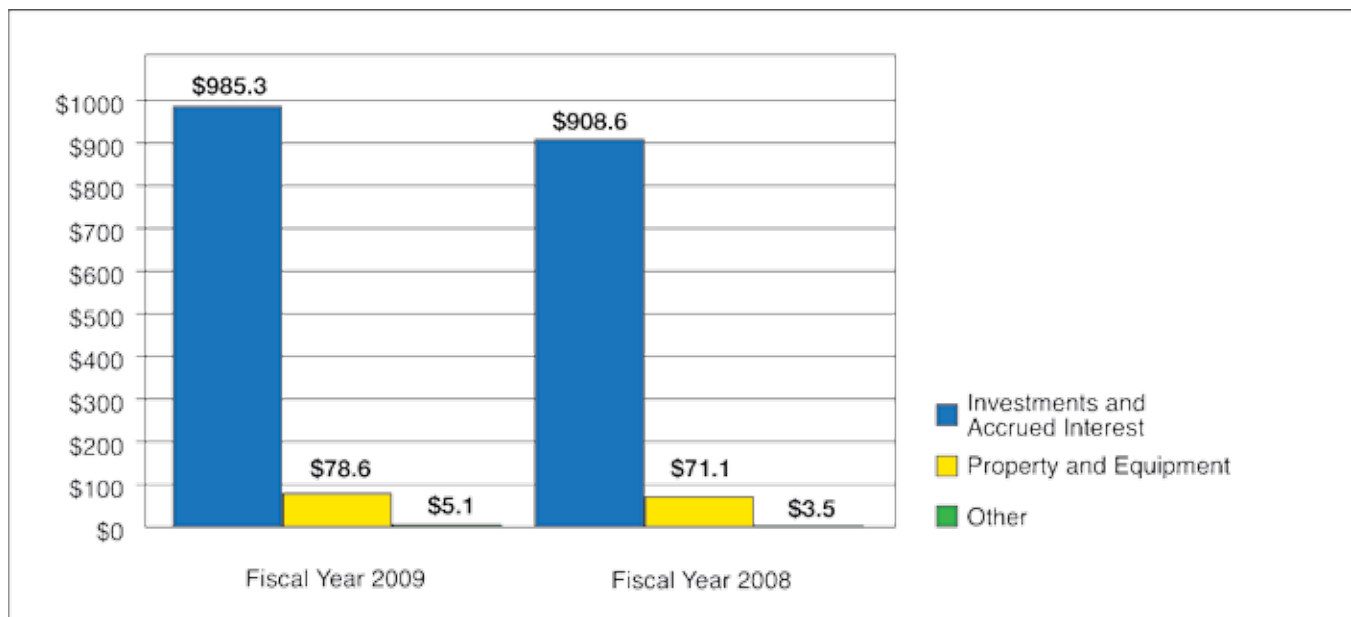
net revenues, which resulted from national bank asset growth during FY 2009. Figure 10 shows the OCC's composition of assets for FYs 2009 and 2008.

Liabilities

The OCC's liabilities represent the resources due to others or held for future recognition and largely comprise deferred revenue, accrued liabilities, and accounts payable. Deferred revenue represents the unearned portion of semiannual assessments that have been collected but not earned. The OCC records a custodial liability for the net amount of enforcement-related receivables. Upon collection, the OCC transfers these amounts to the General Fund of the U.S. Treasury.

As of September 30, 2009, total liabilities were \$314.7 million, a net increase of \$17.5 million, or 5.9 percent, over the level on September 30, 2008. The increase of \$8.8 million, or 4.9 percent, in deferred revenue was a result of

Figure 10: Composition of Assets (in Millions)



Source: OCC data for fiscal years 2009 and 2008.

an increase in assessment collections during FY 2009. The increase of \$4.9 million, or 5.1 percent, in accounts payable and accrued liabilities was primarily caused by an increase in payroll and employee benefits over last year. Figure 11 illustrates the OCC's composition of liabilities for FYs 2009 and 2008.

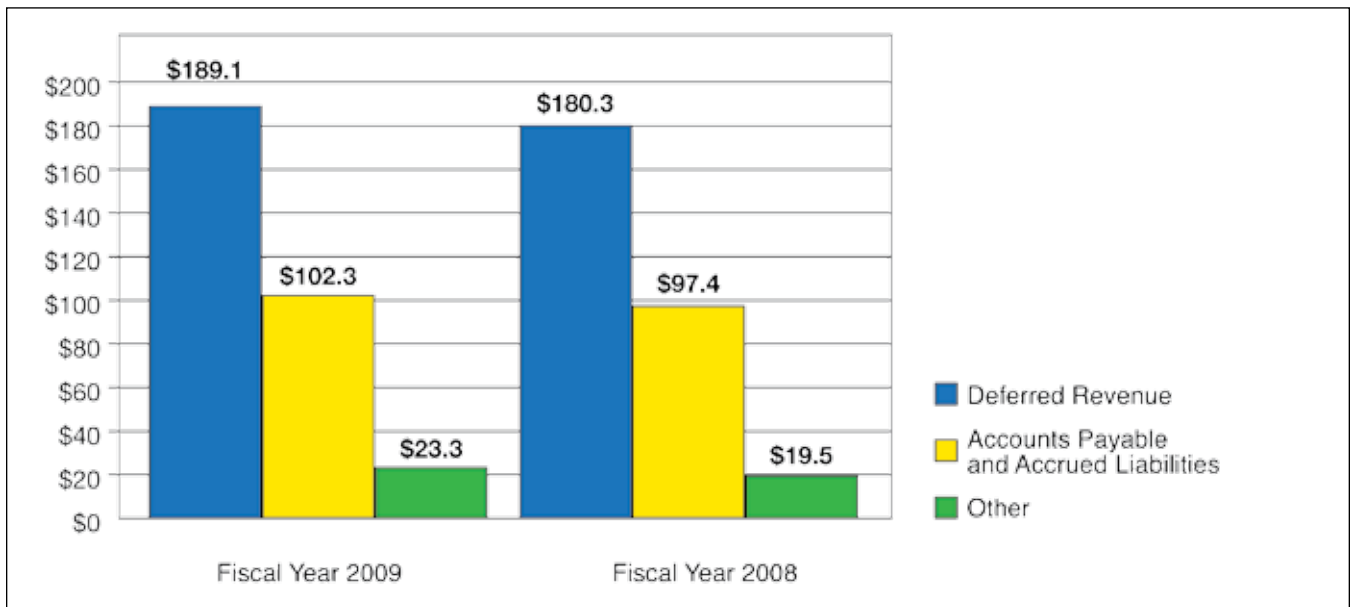
Net Position

The OCC's net position of \$754.3 million as of September 30, 2009, and \$686.1 million as of September 30, 2008, represent the cumulative net excess of the OCC's revenues over the cost of operations since inception. The majority of this increase of \$68.2 million, or 9.9 percent,

directly relates to greater-than-expected net revenue over FY 2008. The net position is presented on both the Balance Sheets and the Statements of Changes in Net Position.

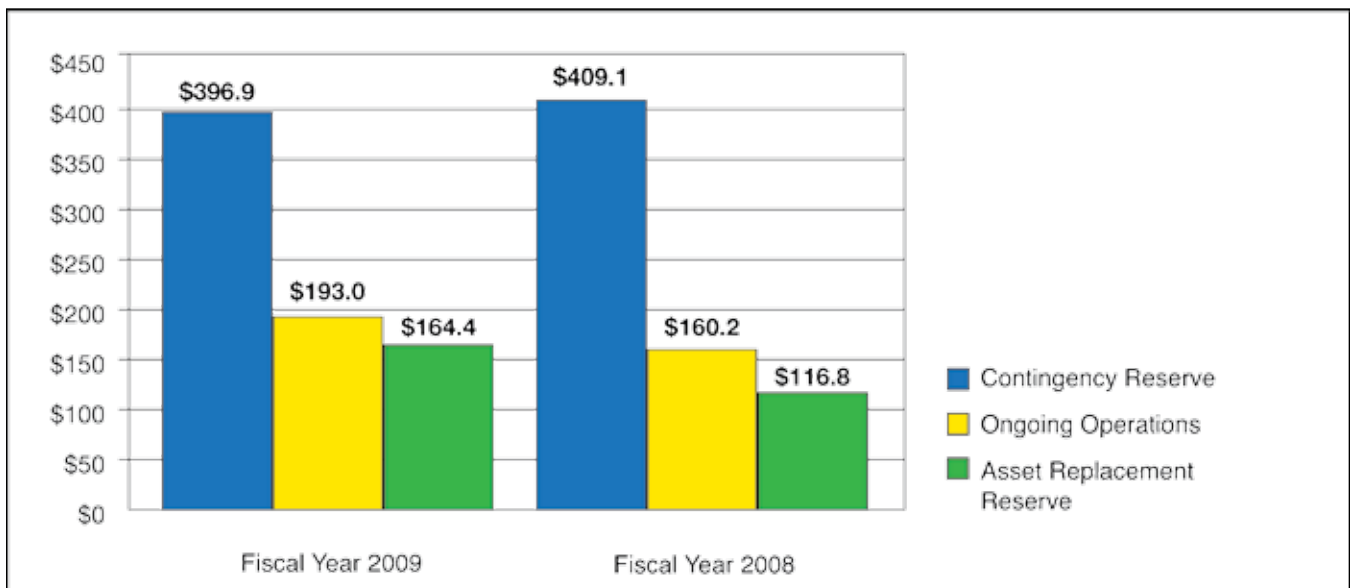
As discussed in the next section, the OCC reserves a significant portion of the net position to supplement

Figure 11: Composition of Liabilities (in Millions)



Source: OCC data for fiscal years 2009 and 2008.

Figure 12: Composition of Net Position (in Millions)



Source: OCC data for fiscal years 2009 and 2008.

resources made available to fund the OCC's annual budget and to cover foreseeable but rare events. The OCC also earmarks funds for ongoing operations to cover undelivered orders, the consumption of assets, and capital investments. Figure 12 shows the OCC's composition of net position for FYs 2009 and 2008.

Reserves

The establishment of financial reserves is integral to the effective stewardship of the OCC's resources, particularly because the agency does not receive congressional appropriations. The contingency reserve serves to reduce the impact on the OCC's operations of revenue shortfalls resulting from foreseeable but rare events that are beyond the OCC's control, or new requirements and opportunities. Examples of such events might include a major change in the national banking system, a fire or flood, or significant impairment to the OCC's information technology network that interferes with the OCC's ability to accomplish its mission. The asset replacement reserve is for the replacement of information technology equipment, leasehold improvements, and furniture replacement for future years. The OCC establishes the target level in the replacement reserve annually, based on the gross value

of existing fixed asset accounts, a growth rate factor, and other market cost adjustments.

Revenues and Costs

The OCC does not receive appropriations. The OCC's operations are funded primarily by assessments collected from national banks and interest on investments in U.S. Treasury securities. The Comptroller, in accordance with 12 USC 482, establishes budget authority for a given fiscal year. The total budget authority available for use by the OCC in FY 2009 was \$775.3 million, which represents an increase of \$26.2 million, or 3.5 percent, over the \$749.1 million budget in FY 2008.

Total FY 2009 revenue of \$774.7 million reflects a \$38.6 million, or 5.2 percent, increase over FY 2008 revenues of \$736.1 million. The increase is primarily attributable to a rise in bank assessment revenue stemming from bank asset growth in the national banking system. Figure 13 depicts the components of total revenue for FYs 2009 and 2008.

Bank Assets and Assessment Revenue

Total assets under OCC supervision increased during FY 2009 to \$8.3 trillion, or 2.5 percent, from \$8.1 trillion a year earlier. For

FY 2009, 87.1 percent, or \$7.2 trillion, is attributable to large national banks. Large banks' share of total OCC assessment revenue decreased from 70.1 percent to 69.0 percent, followed by midsize and community banks increasing to 27.6 percent, and federal branches up slightly to 3.4 percent. National bank asset growth combined with the movement of assets into the national banking system resulted in the higher total assets of national banks in FY 2009. Figure 14 shows the composition of national bank assets by large banks, midsize banks, community banks, and federal branches for FY 2009 and 2008.

Investments

The book value of the OCC's portfolio on September 30, 2009, was \$981.8 million, compared with \$904.7 million a year earlier. The market value of the OCC's portfolio in excess of book value rose to \$24.1 million from \$17.5 million on September 30, 2008. The OCC invests available funds in non-marketable U.S. Treasury securities issued through the Department of the Treasury's Bureau of Public Debt in accordance with the provisions of 12 USC 481 and 12 USC 192. The increase in investments of \$77.1 million, or 8.5 percent, during the fiscal year reflects the investment of

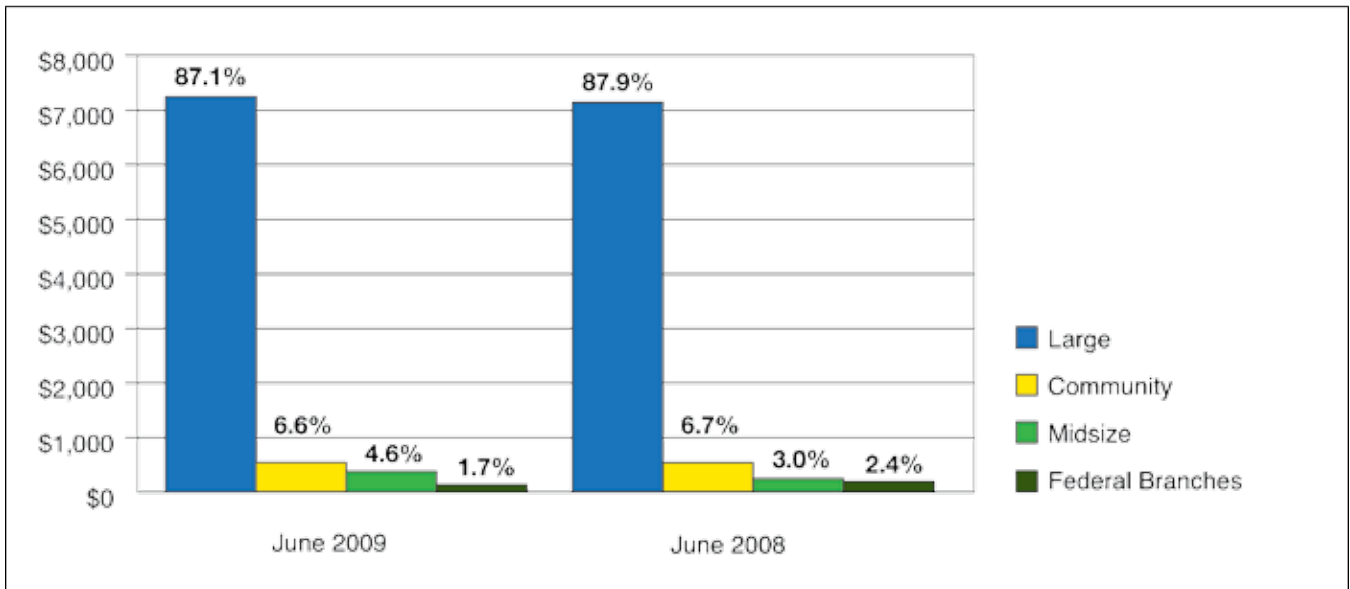
Figure 13: Components of Total Revenue (in Millions)

	Fiscal Year 2009	Fiscal Year 2008	Change	Percent
Assessments	\$ 751.2	\$ 707.5	\$ 43.7	6.2%
Investment Income	21.5	26.1	(4.6)	(17.5)
Other ¹	2.0	2.5	(0.5)	(20.2)
Total Revenue	\$ 774.7	\$ 736.1	\$ 38.6	5.2%

Source: OCC data for fiscal years 2009 and 2008.

¹ Other sources of revenue include bank licensing fees, revenue received from the sale of publications, and other miscellaneous sources.

Figure 14: Composition of National Bank Assets (in Billions)



Source: OCC data as of June 30 for fiscal years 2009 and 2008.

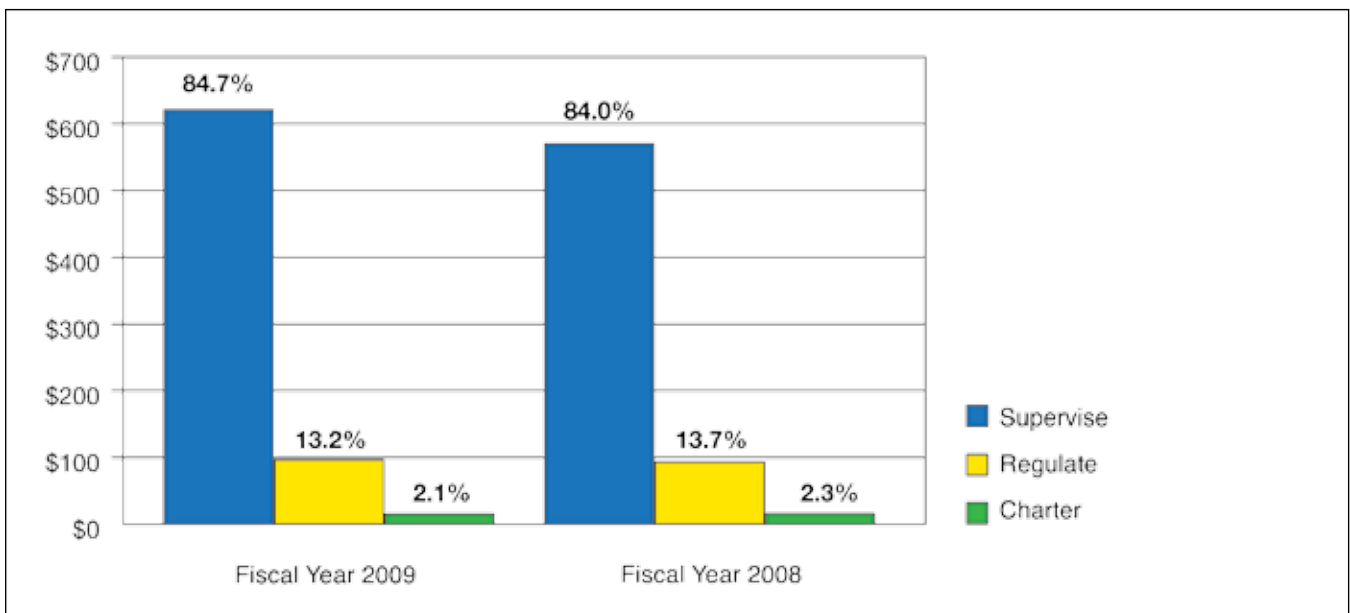
greater-than-expected net revenue. The portfolio earned an annual yield for FY 2009 of 2.9 percent. The OCC calculates annual portfolio yield by dividing the total interest earned during the year by the average ending monthly book value of investments.

Cost of Operations

The OCC’s net cost of operations is reported on the Statements of Net Cost and the Statements of Changes in Net Position. The OCC uses an activity-based time reporting system to allocate costs among the agency’s programs. Costs are

further divided into those resulting from transactions between the OCC and other federal entities (intra-governmental) and those between the OCC and nonfederal entities (with the public). The Statements of Net Cost present the full cost of operating the OCC’s three major

Figure 15: Costs of Operations by Major Program (in Millions)



Source: OCC data for fiscal years 2009 and 2008.

programs—supervise, regulate, and charter national banks—for the years ended September 30, 2009, and September 30, 2008. Figure 15 illustrates the breakdown of costs of operations for FYs 2009 and 2008.

The full cost presented in the Statements of Net Cost includes costs contributed by the Office of Personnel Management on behalf of the OCC to cover the cost of the Federal Employees Retirement System and Civil Service Retirement System retirement plans and the Federal Employees Health Benefits and Federal Employees Group Life Insurance plans totaling \$26.2 million in FY 2009 and \$25.8 million in FY 2008. FY 2009 total program costs of \$732.6 million reflect an increase of \$53.1 million, or

7.8 percent, from \$679.5 million in FY 2008. The increase was primarily due to an increase in staffing levels and the cost of pay and benefits. The OCC experienced an increase in full-time equivalents of 73.3, or 2.4 percent, to 3,104.1 in FY 2009 from 3,030.8 in FY 2008, and additions to employee benefit programs caused costs to increase as well. Additional contributing factors include increases to contractual services supporting maintenance, noncapitalized information technology investments, rent, and travel costs.

The full cost is reduced by earned revenues to arrive at net cost. Earned revenues increased by \$38.6 million, or 5.2 percent, due to an increase in FY 2009 bank assessments that was slightly offset by minor decreases in other

revenues. The increases in assessments are a direct result of bank asset growth in the national banking system, particularly the largest banks. Correspondingly, the costs of supervising the national banks have risen because of the increasing size and complexity of national bank assets.

Budgetary Resources

The Statements of Budgetary Resources, designed primarily for appropriated fund activities, presents the budgetary resources available to the OCC for the year, the status of these resources at the end of the year, and the net outlay of budgetary resources at the end of the year. The OCC, which is a nonappropriated agency, executed \$722.7 million, or 93.2 percent, of the FY 2009 budget of \$775.3 million.

Financial Statements

Office of the Comptroller of the Currency Balance Sheets

As of September 30, 2009 and 2008
(in Thousands)

	<u>Fiscal Year 2009</u>	<u>Fiscal Year 2008</u>
Assets		
Intragovernmental:		
Fund balance with Treasury	\$ 4,480	\$ 1,763
Investments and related interest (Note 2)	985,330	908,556
Advances and prepayments	—	65
Total intragovernmental	989,810	910,384
Cash	12	11
Accounts receivable, net	556	1,710
Property and equipment, net (Note 3)	78,591	71,090
Advances and prepayments	29	46
Total assets	\$ 1,068,998	\$ 983,241
Liabilities		
Intragovernmental:		
Accounts payable and other accrued liabilities	\$ 1,501	\$ 3,368
Total intragovernmental	1,501	3,368
Accounts payable	10,708	8,935
Accrued payroll and benefits	29,814	26,695
Accrued annual leave	35,497	32,681
Other accrued liabilities	24,832	25,764
Deferred revenue	189,065	180,284
Other actuarial liabilities (Note 5)	23,263	19,459
Total liabilities	314,680	297,186
Net position (Note 6)	754,318	686,055
Total liabilities and net position	\$ 1,068,998	\$ 983,241

The accompanying notes are an integral part of these financial statements.

Office of the Comptroller of the Currency Statements of Net Cost

For the Years Ended September 30, 2009 and 2008
(in Thousands)

	Fiscal Year 2009	Fiscal Year 2008
Program Costs		
Supervise National Banks		
Intragovernmental	\$ 84,804	\$ 80,247
With the public	535,887	490,310
Subtotal – Supervise National Banks	\$ 620,691	\$ 570,557
Regulate National Banks		
Intragovernmental	\$ 13,434	\$ 13,093
With the public	83,439	80,324
Subtotal - Regulate National Banks	\$ 96,873	\$ 93,417
Charter National Banks		
Intragovernmental	\$ 2,171	\$ 2,290
With the public	12,900	13,189
Subtotal – Charter National Banks	\$ 15,071	\$ 15,479
Total Program Costs	\$ 732,635	\$ 679,453
Less: Earned revenues not attributed to programs	(774,702)	(736,142)
Net Cost of Operations (Note 7)	<u>\$ (42,067)</u>	<u>\$ (56,689)</u>

The accompanying notes are an integral part of these financial statements.

Office of the Comptroller of the Currency
Statements of Changes in Net Position

For the Years Ended September 30, 2009 and 2008
(in Thousands)

	<u>Fiscal Year 2009</u>	<u>Fiscal Year 2008</u>
Beginning Balances	\$ <u>686,055</u>	\$ <u>603,594</u>
Other Financing Sources:		
Imputed financing (Note 8)	26,196	25,772
Net Cost of Operations	<u>42,067</u>	<u>56,689</u>
Net Change	<u>68,263</u>	<u>82,461</u>
Ending Balances	<u><u>\$ 754,318</u></u>	<u><u>\$ 686,055</u></u>

The accompanying notes are an integral part of these financial statements.

Office of the Comptroller of the Currency
Statements of Budgetary Resources

For the Years Ended September 30, 2009 and 2008
(in Thousands)

	Fiscal Year 2009	Fiscal Year 2008
Budgetary Resources		
Unobligated balance, brought forward, October 1	\$ 734,357	\$ 667,661
Spending authority from offsetting collections		
Earned		
Collected	775,415	740,544
Receivable from Federal sources	(403)	(132)
Subtotal	775,012	740,412
Total Budgetary Resources	\$ 1,509,369	\$ 1,408,073
Status of Budgetary Resources		
Obligations incurred	\$715,998	\$673,716
Unobligated balance available	793,371	734,357
Total Status of Budgetary Resources	\$ 1,509,369	\$ 1,408,073
Change in Obligated Balance		
Obligated balance, net, beginning of period		
Unpaid obligations brought forward, October 1	\$ 165,568	\$ 151,721
Uncollected customer payments from Federal sources, October 1	(3,904)	(4,037)
Total unpaid obligated balance, net	161,664	147,684
Obligations incurred	715,998	673,716
Gross outlays	(704,049)	(659,869)
Change in uncollected customer payments from Federal sources	403	132
Obligated balance, net, end of period		
Unpaid obligations	177,517	165,568
Uncollected customer payments from Federal sources	(3,500)	(3,904)
Obligated balance, net, end of period	174,017	161,664
Net outlays		
Gross outlays	\$ 704,049	\$ 659,869
Offsetting collections	(775,415)	(740,544)
Net Outlays	\$ (71,366)	\$ (80,675)

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

Note 1—Significant Accounting Policies

A. Reporting Entity

The OCC was created as a bureau within the U.S. Department of the Treasury by an act of Congress in 1863. The mission of the OCC was to establish and regulate a system of federally chartered national banks. The National Currency Act of 1863, rewritten and reenacted as the National Bank Act of 1864, authorized the OCC to supervise national banks and to regulate the lending and investment activities of federally chartered institutions.

The financial statements report on the OCC's three major programs: supervise, regulate, and charter national banks. These programs support the OCC's overall mission by ensuring the safety and soundness of the national banking system; fostering a flexible legal and regulatory framework that enables the national banking system to provide a full, competitive array of financial services; and promoting fair access to financial services and fair treatment of bank customers.

B. Basis of Accounting and Presentation

The accompanying financial statements present the operations of the OCC. The OCC's financial statements are prepared from the agency's accounting records in conformity with generally accepted accounting principles for U.S. federal agencies (federal GAAP) and are presented in accordance with the form and content guidelines established by the Office of Management and Budget in

Circular No. A-136, "Financial Reporting Requirements."

The OCC's financial statements consist of Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, and Statements of Budgetary Resources. The OCC presents its financial statements on a comparative basis, providing information for FYs 2009 and 2008.

The financial statements reflect both the accrual and budgetary bases of accounting. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to cash receipt or payment. The budgetary method recognizes the obligation of funds according to legal requirements, which in many cases is made before the occurrence of an accrual-based transaction. Budgetary accounting is essential for compliance with legal constraints and controls over the use of federal funds.

In accordance with federal GAAP, the preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expense during the reporting period. Such estimates and assumptions could change in the future as more information becomes known, which could affect the amounts reported and disclosed herein.

Throughout these financial statements, intragovernmental assets, liabilities, earned revenues, and

costs have been classified according to the entity responsible for these transactions. Intragovernmental earned revenues are collections or accruals of revenue from other federal entities, and intragovernmental costs are payments or accruals of expenditures to other federal entities.

C. Revenues and Other Financing Sources

The OCC derives its revenue primarily from assessments and fees paid by national banks and income on investments in U.S. Treasury securities. The OCC does not receive congressional appropriations to fund any of the agency's operations. Therefore, the OCC does not have any unexpended appropriations.

By federal statute 12 USC 481, the OCC's funds are maintained in a U.S. government trust revolving fund. The funds remain available to cover the annual costs of the OCC's operations in accordance with policies established by the Comptroller.

D. Earmarked Funds

Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the government's general revenues. In accordance with Federal Accounting Standards Advisory Board Statement of Federal Financial Accounting Standards (SFFAS) No. 27, "Identifying and Reporting Earmarked Funds," all of the OCC's

revenue meets this criterion and constitutes an earmarked fund.

The federal government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. Treasury securities are an asset to the OCC and a liability to the U.S. Treasury. Because the OCC and the U.S. Treasury are both parts of the federal government, the corresponding assets and liabilities offset one another from the standpoint of the government as a whole. For this reason, they do not represent an asset or a liability in the U.S. government-wide financial statements.

Treasury securities provide the OCC with authority to draw upon the U.S. Treasury to make future payments or expenditures. When the OCC requires redemption of these securities to make expenditures, the government finances those expenditures from accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the government finances all other expenditures.

E. Fund Balance With Treasury

The Department of the Treasury processes the OCC's cash receipts and disbursements. Sufficient funds are maintained in a U.S. government trust revolving fund and are available to pay current liabilities. The OCC's Statements of Budgetary Resources reflect the status of the agency's Fund Balance with Treasury. It consists of the unobligated balance amount of \$793.4 million at September 30, 2009, and \$734.4 million at

September 30, 2008, which is included in the OCC's net investment balance of \$962.9 million for FY 2009 and \$894.2 million for FY 2008, and the obligated balances not yet disbursed (e.g., undelivered orders) of \$174.0 million for FY 2009 and \$161.7 million for FY 2008. These balances reflect the budgetary authority remaining for disbursements against current or future obligations.

F. Accounts Receivable

As presented in the OCC's Balance Sheets, accounts receivable represent monies owed, primarily due from the public, for services and goods provided that will be retained by the OCC upon collection. Also included are civil money penalty amounts assessed against people or banks for violations of law, regulation, and orders; unsafe or unsound practices; and breaches of fiduciary duty. When collected, these civil money penalty amounts are transferred to the General Fund of the U.S. Treasury. Collections of civil money penalties for the year totaled \$5.7 million at September 30, 2009, and \$25.3 million at September 30, 2008.

In accordance with SFFAS No. 1, "Accounting for Selected Assets and Liabilities," the OCC updates the allowance for loss on accounts receivable account annually or as needed to reflect the most current estimate of accounts that are likely to be uncollectible. Accounts receivable from the public are reduced by an allowance for loss on doubtful accounts. The balance in the OCC's allowance for loss on accounts receivable account was \$9.0 thousand at September 30, 2009, and \$1.1 thousand at September 30, 2008.

G. Advances and Prepayments

Payments in advance for receipt of goods and services are recognized as advances or prepayments and are reported as assets on the Balance Sheets.

H. Property and Equipment

Property, equipment, and internal use software (Note 3) are accounted for in accordance with SFFAS No. 6, "Accounting for Property, Plant, and Equipment," and SFFAS No. 10, "Accounting for Internal Use Software."

Property and equipment purchases and additions are stated at cost. The OCC expenses acquisitions that do not meet the capitalization criteria, such as normal repairs and maintenance, when they are received or incurred.

In addition, property and equipment are depreciated over their estimated useful lives using the straight-line method. They are removed from the OCC's asset accounts in the period of disposal, retirement, or removal from service. Any difference between the book value of the property and equipment and amounts realized is recognized as a gain or loss in the same period that the asset is removed.

I. Liabilities

Accounts Payable

Liabilities represent the amounts owed or accrued under contractual or other arrangements governing the transactions, including operating expenses incurred but not paid. Payments are made in a timely manner in accordance with the Prompt Payment Act. Interest penalties are paid when payments are late. Discounts are taken when cost

effective, and the invoice is paid within the discount period.

Accrued Annual Leave

The OCC accounts for liabilities in accordance with SFFAS No. 5, "Accounting for Liabilities of the Federal Government." In accordance with SFFAS No. 5, annual leave is accrued and funded by the OCC as it is earned, and the accrual is reduced as leave is taken or paid. Each year, the balance in the accrued annual leave account is adjusted to reflect actual leave balances with current pay rates. Sick leave and other types of leave are expensed as taken.

Deferred Revenue

The OCC's activities are primarily financed by assessments on assets held by national banks and the federal branches of foreign banks. These assessments are due March 31 and September 30 of each year, based on asset balances as reflected on Reports of Condition and Income (call reports) dated December 31 and June 30, respectively. Assessments are paid mid-cycle and are recognized as earned revenue on a straight-line basis over the six months following the call report date. The unearned portions of collected assessments are classified as deferred revenue.

Civil Money Penalties

The custodial liability amount of \$0.5 million and \$1.7 million as of September 30, 2009 and 2008, respectively, represents the amount of accounts receivable that, when collected, will be deposited to the General Fund of the U.S. Treasury. Included in the custodial liability are amounts collected for fines, civil money penalties, and related interest assessments. In FY 2009,

the OCC wrote-off civil money penalty amounts in excess of \$1.2 million.

Commitments and Contingencies

The SFFAS No. 12, "Recognition of Contingent Liabilities Arising from Litigation," defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. The OCC recognizes contingencies as liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated. For FY 2009, the OCC has two contingent liabilities. A claimant has brought suit under the Equal Access to Justice Act, claiming entitlement to reimbursement for related legal fees and costs incurred. There is a reasonable possibility that the OCC may incur a loss of between \$0 and \$772.1 thousand as a result. A second claimant has alleged discrimination based on age, race, sex, reprisal, and a hostile work environment. There is a reasonable possibility that the OCC may incur a loss of between \$0 and \$250.0 thousand plus interest, and an additional loss of between \$0 and \$300.0 thousand as a result. In FY 2008, the OCC neither identified nor recognized any such contingent liabilities.

J. Employment Benefits

Retirement Plan

OCC employees are eligible to participate in either the Civil Service Retirement System or the Federal Employees Retirement System, depending on when they were hired by the federal government.

Pursuant to the enactment of Public Law 99-335, which established the Federal Employees Retirement System, most employees hired after December 31, 1983, are automatically covered by the Federal Employees Retirement System and Social Security. Employees hired before January 1, 1984, are covered by the Civil Service Retirement System, with the exception of those who, during the election period, joined the Federal Employees Retirement System.

Thrift Savings Plan

OCC employees are eligible to participate in the federal Thrift Savings Plan. For those employees under the Federal Employees Retirement System, a Thrift Savings Plan account is automatically established, and the OCC contributes a mandatory 1.0 percent of base pay to this account. In addition, the OCC matches employee contributions up to an additional 4.0 percent of pay, for a maximum OCC contribution of 5.0 percent of base pay.

OCC 401(k) Plan

In addition to the federal Thrift Savings Plan, employees can elect to contribute up to 10.0 percent of their base pay in the OCC-sponsored 401(k) plan, subject to Internal Revenue Service regulations. Currently, the OCC contributes a fixed 2.0 percent of the base pay to the plan for all qualified employees, regardless of whether they contribute to the plan or not. In addition, the OCC will match an additional 1.0 percent employee contribution, for a maximum OCC contribution of 3.0 percent of base pay. The OCC contracts with an independent public accounting firm to perform an audit of the 401(k) plan and related

financial statements. The audit was performed on the plan administered by Prudential Financial Incorporated before its transfer to Charles Schwab & Company Incorporated in December 2008 and on amounts transferred to Schwab at month-end. The financial statements for the plan received an unqualified opinion.

Federal Employees Health Benefits and Federal Employees Group Life Insurance

Employees and retirees of the OCC are eligible to participate in Federal Employees Health Benefits and Federal Employees Group Life Insurance plans that involve a cost sharing of bi-weekly coverage premiums by employee and employer. The Office of Personnel Management administers both of these employee benefit plans.

Postretirement Life Insurance Benefit Plan

The OCC sponsors a life insurance benefit plan for current and retired employees. This plan is a defined benefit plan for which the benefit

is earned over the period from the employee's date of hire to the date on which the employee is assumed to retire. The valuation of the plan is conducted in accordance with generally accepted actuarial principles and practices, including the applicable Actuarial Standards of Practice as issued by the Actuarial Standards Board.

Note 2—Investments and Related Interest

The OCC invests available funds in non-marketable U.S. Treasury securities and has the positive intent and ability to hold all U.S. Treasury securities to maturity. It does not maintain any available-for-sale or trading securities. The OCC manages risk by diversifying the agency's portfolio across maturities within established parameters. Diversifying maturities of the individual securities is meant to help manage the inherent risk of interest rate fluctuations. As part of the agency's investment strategy, the OCC evaluates, at least annually, performance benchmarks with

objectives and holdings comparable to those within the OCC's investment portfolio.

Investments are stated at amortized cost and the related accrued interest. Premiums and discounts are amortized over the term of the investment using the effective yield method. The fair market value of investment securities was \$1,006.0 million at September 30, 2009, and \$922.2 million at September 30, 2008. The total return on the OCC's portfolio, which includes income from interest and the change in the market value of the securities held in the portfolio during the reporting period, was 3.9 percent and 7.0 percent, respectively. The overall portfolio earned an annual yield of 2.9 percent for FY 2009 and 3.8 percent for FY 2008.

The yield-to-maturity on the non-overnight portion of the OCC's investment portfolio ranged from 0.54 percent to 4.6 percent in FY 2009, and from 1.5 percent to 4.7 percent in FY 2008.

Fiscal Year 2009 Investments and Related Interest (in Thousands)

	Cost	Amortization Method	Amortized (Premium)/Discount	Investments, Net	Market Value Disclosure
Intragovernmental Securities					
Non-Marketable Market Based	\$ 989,294	Effective Yield	\$ (7,465)	\$ 981,829	\$ 1,005,963
Accrued Interest	3,501		0	3,501	3,501
Total Intragovernmental Investments	\$ 992,795		\$ (7,465)	\$ 985,330	\$ 1,009,464

Fiscal Year 2008 Investments and Related Interest (in Thousands)

	Cost	Amortization Method	Amortized (Premium)/Discount	Investments, Net	Market Value Disclosure
Intragovernmental Securities					
Non-Marketable Market Based	\$ 908,442	Effective Yield	\$ (3,725)	\$ 904,717	\$ 922,248
Accrued Interest	3,839		0	3,839	3,839
Total Intragovernmental Investments	\$ 912,281		\$ (3,725)	\$ 908,556	\$ 926,087

Fiscal Year 2009 Property and Equipment, Net (in Thousands)

Class of Assets	Capitalization Threshold	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Leasehold Improvements	\$ 50	5-20	\$ 57,730	\$ (30,089)	\$ 27,641
Equipment	50	3-10	26,549	(19,138)	7,411
Internal Use Software	500	5	65,080	(44,871)	20,209
Internal Use Software-Dev	500	N/A	10,978	—	10,978
Leasehold Improvements-Dev	50	N/A	12,352	—	12,352
Total			\$ 172,689	\$ (94,098)	\$ 78,591

Fiscal Year 2008 Property and Equipment, Net (in Thousands)

Class of Assets	Capitalization Threshold	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Leasehold Improvements	\$ 50	5-20	\$ 44,586	\$ (24,256)	\$ 20,330
Equipment	50	3-10	25,896	(17,731)	8,165
Internal Use Software	500	5	57,708	(36,411)	21,297
Internal Use Software-Dev	500	N/A	13,571	—	13,571
Leasehold Improvements-Dev	50	N/A	7,727	—	7,727
Total			\$ 149,488	\$ (78,398)	\$ 71,090

Note 3—Property and Equipment, Net

Property and equipment purchased at a cost greater than or equal to the noted thresholds below with useful lives of three years or more are capitalized at cost and depreciated or amortized, as applicable. Leasehold improvements are amortized on a straight-line basis over the lesser of the terms of the related leases or their estimated useful lives. All other property and equipment are depreciated or amortized, as applicable, on a straight-line basis over their estimated useful lives.

For FYs 2009 and 2008, per SFFAS No. 6, “Accounting for Property, Plant and Equipment,” the OCC reported \$2.2 million and \$4.9 million of fully depreciated assets removed from service and recognized a loss of \$45.5 thousand and \$54.1 thousand on the disposal of other assets, respectively.

The figures above summarize property and equipment balances as of September 30, 2009 and 2008.

Note 4—Leases

The OCC leases office space for headquarters operations in Washington, D.C., and for district and field operations. The lease agreements expire at various dates. In FY 2009, the OCC entered into nine new lease occupancy and equipment agreements that ranged between 41 and 127 months in various locations throughout the continental United States, as leases expired. For one of these new lease agreements—upgrading the OCC’s computer systems and equipment to ensure reliable connectivity and improve broadband access for its bank examiners—orders were placed to begin in FY 2010. All of the OCC’s leases are treated as operating leases. All annual lease costs under the operating leases are included in the Statements of Net Cost.

Under existing commitments, the minimum yearly lease payments through FY 2015 and thereafter are shown below.

Fiscal Year 2009 Future Lease Payments (in Thousands)

Fiscal Year	Amount
2010	\$ 38,366
2011	33,417
2012	22,003
2013	18,068
2014	15,007
2015 and Beyond	51,808
Total	\$ 178,669

Fiscal Year 2008 Future Lease Payments (in Thousands)

Fiscal Year	Amount
2009	\$ 34,838
2010	33,702
2011	27,858
2012	15,580
2013	12,480
2014 and Beyond	52,614
Total	\$ 177,072

Note 5—Other Actuarial Liabilities

The OCC's other actuarial liabilities are reported on the Balance Sheets and include the components, as shown in the following figure.

Federal Employees' Compensation Act

The Federal Employees' Compensation Act provides income and medical cost protection to cover federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for OCC employees covered under the

Federal Employees' Compensation Act are administered by the U.S. Department of Labor and later billed to the OCC. The FYs 2009 and 2008 present value of these estimated outflows is calculated using a discount rate of 4.2 percent in the first year and 4.7 percent in subsequent years, and 4.4 percent in the first year and 4.8 percent in subsequent years, respectively.

Postretirement Life Insurance Benefits

The OCC sponsors a life insurance benefit plan for current and retired employees. This plan is a defined benefit plan. The figure on the bottom of this page sets forth the plan's funded status reconciled with the actuarial liability. The actuarial cost method used to determine costs for the retirement

plans is the Projected Unit Credit method, a benefit valuation method, according to Statement of Financial Accounting Standards (SFAS) No. 87, "Employers' Accounting for Pensions," used to determine the actuarial present value of the benefit obligation and the related service cost. The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 5.5 percent. Gains or losses owing to changes in actuarial assumptions are amortized over the service life of the plan. Because the OCC's liability experience, including changes in assumptions, has been less favorable this fiscal year than last, the accumulated SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," charge has risen to \$3.2 million, resulting in an increase of \$5.0 million to the funded status adjustment for FY 2009. The actuarial assumptions and methods used in calculating actuarial amounts comply with the requirements for postretirement benefits other than pensions as set forth in SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," and for health benefit plans as set forth in American Institute of Certified Public Accountants Statement of Position 92-6.

Net periodic postretirement benefit costs for life insurance provisions under the plan include the components as shown on this page. The total benefit expenses are recognized as program costs in the Statements of Net Cost.

Actuarial Liabilities Category (in Thousands)

Component	Fiscal Year 2009	Fiscal Year 2008
Federal Employees' Compensation Act	\$ 1,589	\$ 2,381
Postretirement Life Insurance Benefits	21,674	17,078
Total Actuarial Liabilities	\$ 23,263	\$ 19,459

Accrued Postretirement Benefit Liability and Net Periodic Postretirement Benefit Cost (in Thousands)

Liability Component	Fiscal Year 2009	Fiscal Year 2008
Accumulated Postretirement Benefit Obligation, Beginning of Period	\$ 17,078	\$ 17,464
Net Periodic Benefit Cost	1,887	1,845
Expected Benefit Distribution	(442)	(403)
SFAS 158 Funded Status Adjustment	3,151	(1,828)
Total Postretirement Benefit Liability	\$ 21,674	\$ 17,078
Cost Component		
Service Cost	\$ 595	\$ 607
Interest Cost	1,119	1,028
Amortization of Transition Obligation	173	173
Amortization of Unrecognized Loss	0	37
Total Postretirement Benefit Cost	\$ 1,887	\$ 1,845

Net Position Availability (in Thousands)

Components	Fiscal Year 2009	Fiscal Year 2008
Contingency Reserve	\$ 396,911	\$ 409,061
Asset Replacement Reserve	164,400	116,800
Set Aside for Ongoing Operations:		
Undelivered Orders	66,134	52,743
Consumption of Assets	97,554	81,606
Capital Investments	29,319	25,845
Net Position	\$ 754,318	\$ 686,055

Note 6—Net Position

Net Position represents the net result of operations since inception and includes cumulative amounts related to investments in capitalized assets held by the OCC. The OCC sets aside a portion of its net position as contingency and asset replacement reserves for use at the Comptroller’s discretion. In addition, funds are set aside to cover the cost of ongoing operations.

The contingency reserve supports the OCC’s ability to accomplish its mission in the case of foreseeable, but rare events. Foreseeable, but rare, events are beyond the control of the OCC, such as a major change in the national banking system or for instance, a fire, flood, or significant impairment of its information technology systems.

The asset replacement reserve funds the replacement of information technology equipment, leasehold improvements, and furniture replacements for future years. The target level for the replacement reserve is established annually based on the gross value of existing property and equipment plus a growth rate factor and a margin for market cost adjustments.

The figure above reflects changes for FY 2009 and 2008.

Note 7—Net Cost of Operations

The Net Cost of Operations represents the OCC’s operating costs deducted from assessments and fees paid by national banks and investment interest income earned. The revenue earned from reimbursable services is shown as an offset against the full cost of the program to arrive at its net cost. The imputed financing sources for net cost of operations are reported on the Statements of

Changes in Net Position and in Note 9, Reconciliation of Net Cost of Operations to Budget.

The following figure illustrates the OCC’s operating expenses categories for FY 2009 and 2008.

Note 8—Imputed Costs and Financing Sources

In accordance with SFFAS No. 5, “Liabilities of the Federal Government,” federal agencies must recognize the portion of employees’ pension and other retirement benefits to be paid by the Office of Personnel Management trust funds. These amounts are recorded as imputed costs and imputed financing for other agencies. Annually, the Office of Personnel Management provides federal agencies with cost factors for the computation of current year imputed costs. These cost factors are multiplied by the current year salary or number of employees, as applicable, to provide an estimate of the imputed

Net Cost of Operations by (in Thousands)

Expense Category	Fiscal Year 2009	Fiscal Year 2008
Personnel Compensation and Benefits	\$ 483,484	\$ 452,936
Contractual Services	93,159	79,694
Rent, Communication, and Utilities	49,586	43,946
Travel and Transportation of Persons & Things	46,093	43,651
Imputed Costs	26,196	25,772
Depreciation	17,930	15,900
Other	16,187	17,554
Total	\$ 732,635	\$ 679,453

financing that the Office of Personnel Management trust funds will provide for each agency.

The imputed costs categories for FY 2009 and 2008 are listed in the figure below. These imputed costs are included on the Statements of Net Cost. The financing sources absorbed by the Office of Personnel Management are reflected on the Statements of Changes in Net Position and in Note 9, Reconciliation of Net Cost of Operations to Budget.

Note 9—Reconciliation of Net Cost of Operations to Budget

The reconciliation of Net Cost of Operations to Budget demonstrates the relationship between the OCC’s proprietary (net cost of operations) and budgetary accounting (net obligations) information. For FY 2009, the statement on page 66 shows \$32.8 million in excess resources available to finance activities, a net decrease of \$8.1 million over September 30, 2008. This net

decrease resulted from a \$34.6 million increase in resources available netted against the increase of \$42.3 million in resources used (obligations incurred) and the \$0.4 million increase in imputed financing. The increase in net resources available is primarily because of increased assessments, while the increase in resources used results from various office space and information technology investments as well as salary and employee benefits, as shown on the next page.

Imputed Costs Absorbed by Office of Personnel Management (in Thousands)

Component	Fiscal Year 2009	Fiscal Year 2008
Retirement	\$ 11,358	\$ 10,848
Federal Employees Health Benefits	14,804	14,892
Federal Employees Group Life Insurance	34	32
Total Imputed Costs Covered by OPM	\$ 26,196	\$ 25,772

Reconciliation of Net Cost of Operations to Budget

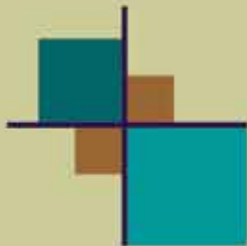
(in Thousands)

	Fiscal Year 2009	Fiscal Year 2008
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations incurred	\$ 715,998	\$ 673,716
Less: Spending authority from offsetting collections	(775,011)	(740,412)
Net obligations	(59,013)	(66,696)
Other Resources		
Imputed financing sources (Note 8)	26,196	25,772
Total resources used to finance activities	(32,817)	(40,924)
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change in budgetary resources obligated for goods, services, and benefits ordered but not yet provided	(2,070)	(3,836)
Resources that finance the acquisition of assets	(25,431)	(32,107)
Other resources or adjustments to net obligated resources that do not affect net cost of operations	3	92
Total resources used to finance items not part of the Net Cost of Operations	(27,498)	(35,851)
Total resources used to finance the Net Cost of Operations	\$ (60,315)	\$ (76,775)
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Change in deferred revenue	8,781	8,904
Total components that will require or generate resources in future periods	8,781	8,904
Components not Requiring or Generating Resources:		
Depreciation and amortization	17,885	15,846
Net increase in bond premium	(8,463)	(4,718)
Other	45	54
Total components that will not require or generate resources	9,467	11,182
Total components of net cost of operations that will not require or generate resources in the current period	18,248	20,086
Net Cost of Operations	\$ (42,067)	\$ (56,689)

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Independent Auditor's Report on Financial Statements

Inspector General, Department of the Treasury, and
the Comptroller of the Currency:

We have audited the accompanying balance sheets of the Office of the Comptroller of the Currency (OCC) as of September 30, 2009 and 2008, and the related statements of net cost, changes in net position and budgetary resources for the years then ended. These financial statements are the responsibility of the management of OCC. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the OCC as of September 30, 2009 and 2008, and its net costs, changes in net position, and budgetary resources for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The information in Section Five, pages 47 through 53, and pages 73 and 74 of OCC's fiscal year 2009 Annual Report is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information, and we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The information included in Sections One, Two, Three, Four, and pages 74 through 77 of OCC's fiscal year 2009 Annual Report is presented for purposes of additional analysis and is not a required part of the financial statements. We did not audit this information, and we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued reports dated October 30, 2009, on our consideration of the OCC's internal control over financial reporting, and on our tests of its compliance with certain provisions of applicable laws, regulations, and contracts. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audits.

Handwritten signature in black ink that reads "GKA, P.C." with a stylized flourish under the "A".

October 30, 2009

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Independent Auditor's Report on Internal Control over Financial Reporting

Inspector General, Department of the Treasury, and
the Comptroller of the Currency:

We have audited the balance sheet and the related statements of net cost, changes in net position, and budgetary resources, hereinafter referred to as "financial statements" of the Office of the Comptroller of the Currency (OCC) as of and for the year ended September 30, 2009, and have issued our report thereon dated October 30, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the applicable provisions of Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

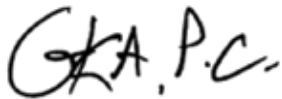
In planning and performing our audit, we considered the OCC's internal control over financial reporting by obtaining an understanding of the design effectiveness of OCC's internal control, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04 and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide an opinion on the effectiveness of OCC's internal control over financial reporting. Consequently, we do not provide an opinion on the effectiveness of OCC's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

We noted certain matters involving internal control and its operation that we reported to management of OCC in a separate letter dated October 30, 2009.

This report is intended solely for the information and use of the Management of the OCC, the Department of the Treasury Office of Inspector General, the Government Accountability Office, OMB, and the U.S. Congress, and is not intended to be, and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "G.A.P.C." with a stylized flourish under the "A".

October 30, 2009

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Independent Auditor's Report on Compliance with Laws and Regulations

The Inspector General, Department of the Treasury, and
the Comptroller of the Currency:

We have audited the balance sheets and the related statements of net cost, changes in net position, and budgetary resources, hereinafter referred to as "financial statements" of the Office of the Comptroller of the Currency (OCC) as of and for the years ended September 30, 2009 and 2008, and have issued our report thereon dated October 30, 2009. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, the applicable provisions of Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

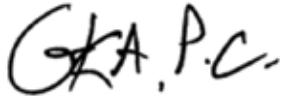
The management of the OCC is responsible for complying with laws and regulations applicable to the OCC. As part of obtaining reasonable assurance about whether the OCC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including certain requirements referred to in Section 803(a) of the *Federal Financial Management Improvement Act (FFMIA) of 1996*. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations and contracts applicable to the OCC. However, our objective was not to provide an opinion on overall compliance with laws, regulations and contracts. Accordingly, we do not express such an opinion.

The results of our tests of compliance with laws, regulations and contracts described in the preceding paragraph, exclusive of FFMIA, disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04.

Under FFMIA, we are required to report whether the OCC's financial management systems substantially comply with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

The results of our tests disclosed no instances in which the OCC's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

This report is intended solely for the information and use of the Management of the OCC, the Department of the Treasury Office of Inspector General, the Government Accountability Office, OMB, and U.S. Congress and is not intended to be, and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Handwritten signature in black ink that reads "G.A.P.C." with a stylized flourish.

October 30, 2009

Other Accompanying Information

Performance Measures and Results

The OCC's FY 2009 performance measures, workload indicators, customer service standards, and results are presented below.

Figure 16: Performance Measures, Workload Indicators, Customer Service Standards, and Results

Strategic Goal	Performance Measure Workload Indicator Customer Service Standard	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009	
					Target	Actual ¹
I. A safe and sound national banking system						
	Percentage of national banks with composite CAMELS rating of 1 or 2 ²	95%	96%	92%	90%	82%
	Rehabilitated problem national banks as a percentage of the problem national banks one year ago (CAMELS 3, 4 or 5) ²	46%	52%	47%	40%	29%
	Percentage of national banks that are categorized as well capitalized ²	99%	99%	99%	95%	84%
	Percentage of critically undercapitalized banks on which responsible action is taken within 90 calendar days after they become critically undercapitalized	N/A ³	100%	100%	100%	100%
	Average survey response that the report of examination clearly communicated examination findings, significant issues and the corrective actions management needed to take ⁴	1.30	1.32	1.28	≤1.75	1.34
II. Fair access to financial services and fair treatment of bank customers						
	Percentage of national banks with consumer compliance rating of 1 or 2	94%	97%	97%	94%	97%
	Percentage of qualified intermediate small banks to which the OCC offers to provide consultation on the Community Reinvestment Act and community development opportunities	100%	100%	100%	100%	100%
	Percentage of consumer complaints closed within 60 calendar days of receipt ⁵	36%	18%	12%	80%	8%
	Number of consumer complaints opened/closed during the fiscal year ⁵	31,827 32,925	33,655 26,245	41,656 30,986	38,000 36,000	58,810 32,533
III. A flexible legal and regulatory framework that enables the national banking system to provide a full, competitive array of financial services						
	Percentage of external legal opinions issued within established time frames	89%	96%	92%	86%	88%
	Number of external legal opinions issued during the fiscal year ⁶	70	81	73	60	53
	Percentage of licensing applications and notices filed electronically	36%	38%	46%	40%	51%
	Number of licensing applications and notices filed electronically during the fiscal year	1,367	1,261	1,525	1,200	1,681
	Percentage of licensing applications and notices completed within established time frames	94%	96%	95%	95%	95%
	Number of licensing applications and notices completed during the fiscal year ⁷	2,425	2,278	1,843	1,500	1,471
	Average survey rating of the overall licensing services provided by OCC ⁸	1.20	1.20	1.22	< 1.5	1.25

Figure 16: Performance Measures, Workload Indicators, Customer Service Standards, and Results (cont'd)

Strategic Goal	Performance Measure Workload Indicator Customer Service Standard	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009	
					Target	Actual ¹
IV. An expert, highly motivated, and diverse workforce that makes effective use of OCC resources						
	Total OCC costs relative to every \$100,000 in bank assets regulated	\$ 8.57	\$ 8.89	\$ 8.39	\$ 9.22	\$ 8.81

Source: OCC data for fiscal years 2009 and 2008.

¹ Fiscal year 2009 performance numbers shown in bold italics are estimates. Some performance data is obtained from quarterly call reports from banks. The September 30, 2009, call reports are not due until 30 or 45 days after the end of the period. Additionally, examinations concluded late in the fiscal year are not finalized for another 30 to 60 days. As a result, complete fiscal year data is not yet available; therefore, estimates have been reported.

² These performance measures for fiscal year 2009 are below target primarily because of the difficult economic situation the entire financial industry is currently facing. The OCC continues to closely monitor the capital levels and performance of all our banks and when necessary, initiate formal and informal agreements to enhance our level of supervision.

³ There were no critically undercapitalized national banks in fiscal year 2006.

⁴ The examination survey is based on a five-point scale, in which 1 indicates complete agreement and 5 indicates complete disagreement.

⁵ In fiscal year 2006, the OCC revised reporting on the consumer complaints measure and related workload indicators to exclude inquiries and appeals at the recommendation of the Government Accountability Office. As such, prior year reporting is no longer presented because the data is not comparable and fiscal year 2006 is the baseline year.

⁶ For fiscal year 2009, the number of external legal opinions issued is below target because legal opinions are initiated externally by banks requesting interpretations from the OCC and the OCC can only base projections on past history and anticipated activity.

⁷ The number of total licensing filings has declined from the previous fiscal year because the number is based on actual applications received that also declined. However, the number of applications filed electronically increased for the fiscal year.

⁸ The licensing survey is based on a five-point scale, in which 1 indicates outstanding and 5 indicates significantly deficient.

Improper Payments Information Act

The Improper Payments Information Act of 2002, as implemented by the Office of Management and Budget, requires federal agencies to review all program and activities annually and identify those that may be susceptible to significant erroneous payments. The OCC analyzed payments (excluding payroll) made during FY 2009 and identified 30 erroneous payments requiring adjustments totaling \$29,476. Erroneous payments are identified and monitored daily to ensure prompt recovery. The underlying causes and contributing factors are identified quickly, and control measures are implemented to prevent

additional erroneous payments. The OCC corrected and recovered all erroneous payments made during the year. Figure 17 summarizes the OCC's erroneous payments for FY 2009 and 2008.

Methodology for Identifying Improper Payments

The OCC conducts both prepayment reviews and post-payment audits to identify improper or erroneous payments. The OCC conducts a 100 percent prepayment review of all supplier invoices and payment files prior to transmission to the Treasury Department. As part of its sensitive payments program, the OCC conducts a 100 percent prepayment review of executive and international travel vouchers

and relocation payments, thereby helping to prevent erroneous payments. The OCC uses a sampling approach to audit travel vouchers and data-mining techniques to detect potential erroneous payments for post-payment audit activities. Immediately upon their identification, the OCC initiates collection activity to ensure recovery of funds.

Based on the analyses, the OCC has concluded that erroneous payments do not exceed the Treasury threshold, which is both 2.5 percent of nonpayroll payments and \$10 million. The OCC is compliant with the Erroneous Payments and Recovery Act of 2001 and the Improper Payments Information Act of 2002.

Figure 17: Erroneous Payments

	Fiscal Year 2009	Fiscal Year 2008
Number of payments	30	38
Dollar value of adjustments	\$ 29,476	\$ 31,895

Source: OCC data for fiscal years 2009 and 2008.

Assurance Statement

The Office of the Comptroller of the Currency (OCC) has made a conscientious effort during fiscal year (FY) 2009 to meet the internal control requirements of the Federal Managers' Financial Integrity Act (FMFIA), the Federal Financial Management Improvement Act (FFMIA), and Office of Management and Budget (OMB) Circular A-123.

OCC systems of management control are designed to ensure that

- a) Programs achieve their intended results;
- b) Resources are used in accordance with the agency's mission;
- c) Programs and resources are protected from waste, fraud, and mismanagement;
- d) Laws and regulations are followed;
- e) Controls are sufficient to minimize improper or erroneous payments;
- f) Performance information is reliable;
- g) System security is in substantial compliance with relevant requirements;
- h) Continuity of operations planning in critical areas is sufficient to reduce risk to reasonable levels; and
- i) Financial management systems are in compliance with federal financial systems standards, *i.e.*, FMFIA Section 4 and FFMIA.

I am providing unqualified assurance that the above-listed management control objectives were achieved by the OCC without material weakness during FY 2009. Specifically, this assurance is provided relative to Sections 2 and 4 of the FMFIA.

I am also reporting substantial compliance with the requirements imposed by the FFMIA.

The OCC also conducted its assessment of the effectiveness of internal control over financial reporting, which includes the safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, the OCC can provide unqualified assurance that its internal control over financial reporting, as of June 30, 2009, was operating effectively, and no material weaknesses were found in the design or operation of the internal control over financial reporting.

I also provide unqualified assurance that our supervision programs achieved intended results despite the extraordinary challenges that confronted the national banking system during the year. A broad economic slowdown followed an historic downturn in U.S. home prices, a contagious loss of confidence across U.S. and global capital markets, and a severe and rapid liquidity crisis striking the banking system. We have successfully participated in the government-wide response to these developments.

Large losses due to housing and capital market problems surfaced first in large banks, resulting in downward pressure on earnings, capital, and liquidity positions. The widespread economic downturn strained nearly every asset class, with virtually all lending sectors experiencing increasing risks. The resulting safety and soundness concerns spread to many community and midsize banks.

Problems of this magnitude demanded an extraordinary response. Late in 2008, the U.S. Treasury began investing in preferred shares of economically viable U.S. banks through the Troubled Asset Relief Program (TARP), starting with the largest domestically owned bank holding companies, aimed at stabilizing the U.S. banking

system. TARP-recipient banks must adhere to specific rules, and our supervision has expanded to include reviewing and monitoring the banks' compliance.

In February, the Federal Reserve and the OCC embarked on a simultaneous assessment of the capital held by the 19 largest U.S. bank holding companies. This unprecedented effort allowed supervisors to determine additional capital buffers each institution might need if the economy weakened more than expected over a two-year period. Some institutions developed capital plans and are raising tangible common equity to establish the necessary capital buffers; others needed to raise no additional capital and instead chose to repay TARP monies.

Meanwhile, the number of problem banks within the Community, Midsize, and Special Supervision bank portfolios has increased significantly, and the number of bank failures is rising. Given the scope of the financial crisis, we expect additional problem banks to emerge, and we anticipate further deterioration in existing problem banks.

OCC personnel are reviewing each failed bank's supervisory history to identify individual causative factors and assess the OCC's oversight effectiveness. The Treasury Office of Inspector General (OIG) has also completed mandated material loss reviews of five of the national banks that have failed since the current economic crisis began in 2007. The results of OCC internal reviews and OIG material loss reviews are being used to strengthen bank supervision processes.

Overall, we believe our supervisory process is fundamentally sound. However, we are addressing the increasing risks and deficient risk management practices that our examiners identified. We are also taking advantage of lessons learned, including: better aggregation of risk concentrations, more robust stress testing, improved capital and liquidity planning, better coordination with other functional regulators, and less reliance on rating agency ratings.

Finally, in FY 2008 we reported that only 18 percent of the targeted 80 percent of FY 2007 consumer complaints were closed within 60 calendar days of receipt. Following a management improvement project in FY 2008, we adjusted our processes and implemented an online consumer complaint form. The simplified form submission process and the extraordinary economic environment of the past year have accounted for a 90 percent increase in complaint volume. Nonetheless, we continue to redeploy staff resources and streamline complaint processing and expect to meet our Customer Assistance Group's target performance objective in early 2010.

Analytical Basis of Assurance Statement

OCC evaluated its management controls in accordance with the FY 2009 Secretary's Assurance Statement Guidance of July 10, 2009, and also considered the following guidance:

- OMB Circular A-123, Management's Responsibility for Internal Control;
- OMB Circular A-127, Financial Management Systems;
- OMB Circular A-130, Management of Federal Information Resources; and,
- Treasury Directive 40-04, Treasury Internal (Management) Control Program.

Information considered in our control assessment included the following:

- FMFIA and FFMIA certifications submitted by each Executive Committee member;
- The OCC's Strategic Risk Management Plan;
- Results of internal control testing under OMB Circular A-123, Appendix A;
- Executive Committee descriptions of business unit quality management programs;

- Results of internal reviews, including quality management program testing by the Enterprise Governance unit;
- Results of control self-assessments completed by OCC managers in FY 2009;
- Audit reports and evaluations issued by the Government Accountability Office and the Office of the Inspector General;
- Completion of risk assessment materials related to the Improper Payments Information Act by our Deputy Chief Financial Officer, which was submitted to the Department in May 2009;
- Completion of GAO's Core Financial System Requirements Checklist;
- Unqualified and timely audit opinion on FY 2008 financial statements; and,
- CPAs Gardiner, Kamy and Associates' status report of October 16, 2009, on the FY 2009 financial statement audit.



John C. Dugan
Comptroller of the Currency
November 3, 2009

Acronyms

ATM: Automated Teller Machine

CAMELS:

- C Capital
- A Asset quality
- M Management
- E Earnings
- L Liquidity
- S Sensitivity to market risk

CPA: Certified Public Accountant

FDIC: Federal Deposit Insurance Corporation

FFMIA: Federal Financial Management Improvement Act

FMFIA: Federal Managers' Financial Integrity Act

FY: Fiscal year

GAAP: Generally accepted accounting principles

HMDA: Home Mortgage Disclosure Act

OCC: Office of the Comptroller of the Currency

OIG: Office of Inspector General

OMB: Office of Management and Budget

OTS: Office of Thrift Supervision

S&P: Standard & Poor's

SFAS: Statement of Financial Accounting Standards

SFFAS: Statement of Federal Financial Accounting Standards

TARP: Troubled Asset Relief Program

USC: U.S. Code

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The Office of the Comptroller of the Currency seeks to assure a banking system in which national banks soundly manage their risks, comply with applicable laws, compete effectively with other providers of financial services, offer products and services that meet the needs of customers, and provide fair access to financial services and fair treatment of their customers.