



Strategic Plan (2003 – 2008) for the Office of Thrift Supervision

Mission Statement: To supervise savings associations and their holding companies in order to maintain their safety and soundness and compliance with consumer laws, and to encourage a competitive industry that meets America's financial services needs.

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From the Director

I am pleased to present OTS's Strategic Plan for fiscal years 2003 – 2008. The Plan sets forth the strategies and activities that OTS will use to help ensure a safe and sound, competitive, and profitable thrift industry that meets the needs of the American people.

The thrift industry plays a major role in nurturing the American dream of home ownership. Financing the purchase of homes has been the focus of thrift institutions throughout their history. Thrifts continue to do an excellent job of promoting homeownership by making residential mortgage financing readily available.

Housing is one of the principal drivers of the American economy and accounts for more than 20 percent of annual gross domestic product (GDP). Thrifts are major players in this arena and make a significant contribution toward our nation's GDP. As of December 2002, thrift investments related to residential mortgages accounted for 67.5 percent of industry assets.

While mortgages are the driving and stabilizing force for most thrifts, the federal thrift charter has evolved and now offers considerable flexibility to serve other market niches. Thrifts can offer a full range of lending products, including small business and other commercial, farm, construction, land development, credit card, education, and auto loans.

Thrifts are diverse in terms of size and scope. They range from small, one office, mutually owned institutions to large, sophisticated, publicly traded thrifts with hundreds of offices. Currently the largest OTS-regulated thrift has assets exceeding \$240 billion, with the next largest institution at \$76 billion. At the other end of the spectrum, there are 24 thrifts with assets of under \$10 million.

OTS begins this strategic planning period with a healthy and robust thrift industry. As of June 2003, there were 947 thrifts with total assets of \$1.06 trillion. Approximately 99.5 percent of the industry was well capitalized, and no thrift was less than adequately capitalized.

OTS supervises 956 savings and loan holding companies in 516 corporate structures. Over half of all thrifts and 90 percent of total thrift assets are owned by holding companies. The holding company structures control approximately \$6 trillion in consolidated assets and vary widely in their operations and structure. More than 100 structures are engaged in significant lines of business other than banking such as insurance, financial services, retailing, and manufacturing.

We will monitor our progress and performance on the strategies and goals outlined in this Plan and make appropriate modifications as new challenges arise and the industry evolves.



James E. Gilleran

Notification of Where to Send Comments or Questions

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OTS's Mission, Overview, and Guiding Principles

Mission

To supervise savings associations and their holding companies in order to maintain their safety and soundness and compliance with consumer laws, and to encourage a competitive industry that meets America's financial services needs.

Overview

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

The federal thrift charter allows the thrift and its subsidiaries, as well as its holding company and other affiliates, to operate under a single consolidated regulator. In this respect, OTS is unique among the federal banking agencies. The charter also provides the flexibility to engage in a wide variety of activities while focusing primarily on retail banking and home mortgage, consumer, and small business lending.

Condition of the Thrift Industry

As of June 2003, there were 947 thrifts with combined assets of approximately \$1.06 trillion. The financial condition of the thrift industry is strong. Over 99.5 percent of the industry is well capitalized, and as of June no thrift was less than adequately capitalized. A stable economy, a generally hospitable interest rate environment, sound lending and investment practices, and effective regulation, including strengthened capital standards, aided this strong performance. Thrifts reported record earnings and capital for 2002 and for the first two quarters of 2003.

OTS Operations

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

The President, with Senate confirmation, appoints a Director of OTS for a 5-year term. OTS's Director also serves on the boards of the Federal Deposit Insurance Corporation (FDIC) and the Neighborhood Reinvestment Corporation.

OTS funds its operations through periodic assessments charged to the thrift industry and receives no appropriated funds from Congress. In 1998, OTS amended its assessment regulation to: 1) establish an assessment structure that keeps assessments rates as low as possible while providing OTS with the resources necessary for effective supervision, and 2) more equitably correlate assessments to supervision costs.

Guiding Principles

These principles guide the mission and operations of OTS and support our core values:

- Integrity* Internal and external actions are conducted with the highest degree of honesty and fairness, fostering confidence in OTS by the public, the thrift industry, and its employees.
- Professionalism* OTS values its employees as critical assets to achieve excellence in regulating the thrift industry. Flexible human capital strategies ensure a talented staff ready to meet regulatory challenges in a productive and satisfying work environment. OTS's staff works in an environment built on trust, respect, teamwork, communication, creativity, diversity, and empowerment.
- Efficiency* OTS is committed to excellence and efficiency. Management provides quality-focused leadership and technical excellence to enable OTS to meet its regulatory responsibilities in a cost-effective and timely manner.
- Partnerships* OTS works with other financial institution regulators to achieve consistency in policy and regulation. We seek to minimize regulatory burden to the extent consistent with effective supervision.
- Responsiveness* OTS listens to, learns from, and collaborates with the institutions it regulates and the public it serves on how best to address their needs. OTS addresses industry and individual risks in a proactive, efficient, and effective manner.

Strategic Goals and Issues

Program

OTS's program is to ensure a safe and sound thrift industry. Over 83 percent of its resources and revenues are used to achieve this goal.

Strategic Goals

Four strategic goals guide the operations of OTS and directly support the mission and goals of Treasury:

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

Key Strategic Issues

Through examinations, OTS assesses the financial condition and risk profile of thrift institutions and identifies violations of law and regulation and potential financial and economic problems. To combat fraud, money laundering, and financial crimes, thrifts are reviewed during exams for compliance with the requirements of the Bank Secrecy Act, the USA PATRIOT Act, and other anti-money laundering laws.

Examinations help to prevent development or continuation of unsafe operating practices and to effect timely resolution of problems or weaknesses, including those related to consumer protection and the Community Reinvestment Act (CRA). To enhance our ability to effectively regulate the thrift industry, OTS began the process of combining the safety and soundness and compliance examinations in 2002. Integrated examinations are tailored to the risk-profile of the institution incorporating procedures that assess both the institution's safety and soundness and its compliance management performance.

OTS attends meetings of the Basel Committee for Banking Supervision as the committee considers revisions to the Basel Capital Accord. The committee is updating and revising the original Capital Accord to make the capital standards required of internationally active financial institutions more comprehensive and risk sensitive. OTS has requested permanent membership on the Basel Committee. OTS has actively worked with the other U.S. federal banking regulators to develop proposed changes to domestic capital standards. OTS and the

other U.S. federal banking regulators are seeking comment from U.S. banks and thrifts on the potential impact of the domestic proposal that would implement the new accord.

OTS has also initiated contact with the European Union to discuss the agency's role as the primary supervisor of consolidated thrift holding companies. The European Union issued a Financial Conglomerate Directive (FCD) that requires equivalent supervision of conglomerates that operate in multiple financial services sectors (insurance and banking or securities). OTS believes that its supervisory process for internationally active thrift holding companies is consistent with the principles outlined in the FCD.

In 2003, the federal financial regulatory agencies began a three-year effort to obtain suggestions from the industry and public on more streamlined and less burdensome ways to regulate. The interagency Economic Growth and Regulatory Paperwork Reduction Act (EGRPRA) project will review regulations for unnecessary burden.

Vitality of the Thrift Charter

Financing the construction and acquisition of homes has been the focus of thrift institutions throughout their history, which dates to the first half of the 19th century. Today, thrifts remain a major player on the front end of the mortgage process. Thrifts promote homeownership by making residential mortgage financing readily available. In addition, the charter is used extensively by some thrifts to make small business and consumer retail loans. This builds on the charter's strength and versatility.

The vitality of the federal thrift charter is attributable to three factors. First, the charter meets the demand for a broad range of consumer lending products. Second, it permits thrifts to operate nationally through uniform standards and one organization. Third, it allows the thrift and its subsidiaries, as well as its holding company and other affiliates, to operate under a single consolidated regulator. The federal thrift charter is the preeminent vehicle for institutions that focus on providing home mortgages, consumer loans, and other retail banking products.

Emergency Preparedness

In the post – September 11th world, disaster contingency planning and preparedness are key strategic issues. OTS participates on the Financial and Banking Information Infrastructure Committee (FBIIC) that is chaired by the Treasury Department which works with the Department of Homeland Security and the Office of Cyberspace Security to improve the reliability and security of the financial industry's infrastructure. Thrifts' continuity of operations and emergency preparedness plans are reviewed during examinations.

OTS's emergency preparedness plan and a Continuity of Operations Plan (COOP) protect our employees and buildings and help ensure we continue to function in the event of an emergency. The plans cover succession order and backup capabilities in addition to problem assessment, damage control, evacuation, and communications.

To communicate with the industry, OTS collected emergency contact information from each of its regulated institutions. OTS's Extranet, a website accessible only to OTS and its regulated institutions, will allow for information-sharing between the agency and industry. Through FBIIC,

OTS can maintain secure communications with the financial regulators and other critical financial service sector entities.

In the event of a major disaster affecting Washington, D.C., OTS's COOP provides for full backup operations to be run from a regional office. This includes IT functionality, as well as backups for supervisory functions, external affairs, and other critical functions. The regional offices have also implemented backup plans.

Partnerships on Cross-cutting Issues

OTS works closely with the four other federal banking agencies: the Board of Governors of the Federal Reserve System (FRB), the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), and the National Credit Union Administration (NCUA) to achieve consistency in policy and regulation and to address common issues. To enhance our supervisory effectiveness, OTS participates with the following groups:

1. The Federal Financial Institutions Examination Council (FFIEC), composed of members of each of the five federal banking regulatory agencies, prescribes uniform principles, standards, and report formats for the examination of insured depository institutions. The FFIEC identifies emerging issues in the financial institutions industry and coordinates supervisory activities with other regulators and through the Conference of State Bank Supervisors (CSBS). OTS's Director, James Gilleran, began a two-year term as Chairman of the FFIEC on April 1, 2003. OTS chairs the FFIEC's Task Force on Compliance.
2. The Basel Committee on Banking Supervision provides a forum for international cooperation on matters relating to supervision. The Committee is updating and revising the Basel Capital Accord to make the capital standards required of internationally active financial institutions more comprehensive and risk sensitive. OTS attends Basel Committee meetings to ensure that issues affecting the thrift industry are properly considered in our domestic regulatory processes. OTS is seeking membership on the Basel Committee similar to that granted for the other U.S. federal banking regulators.
3. The interagency Shared National Credit Program performs a uniform credit review of financial institution loans that exceed \$20 million and are shared by three or more financial institutions. The banking agencies are members.
4. The Financial and Banking Information Infrastructure Committee (FBIIC) strives to improve the reliability and security of the U.S. financial system and to protect against disruption of critical information systems. The Treasury Department chairs FBIIC and works with the Department of Homeland Security and the Office of Cyberspace Security to secure the financial industry's critical infrastructure. Members of the FBIIC include the five banking agencies as well as other federal and state agencies that have regulatory responsibilities for financial services.
5. The GPRA Interagency Working Group shares best practices and discusses issues related to the common goals and objectives of the federal financial regulatory agencies. Members of the group include the five banking regulators, OFHEO, and the SEC.
6. OTS, along with the Treasury Department, the other federal banking regulators, and various law enforcement agencies and personnel, regularly and actively meet to discuss strategies and goals for implementing the Bank Secrecy Act (BSA) and its implementing regulations.
7. OTS regional offices work closely with the other banking agency regional offices to coordinate information sharing and consistent regulation.

Accomplishing OTS Strategic Goals

Strategic Goal 1: A safe and sound thrift industry.

Through the examination process, OTS assesses the financial condition and risk profile of thrift institutions and identifies and addresses unsafe and unsound practices and violations of law and regulation. Through the off-site monitoring process, OTS regularly monitors the financial performance of individual institutions and the industry enabling early identification of emerging trends or problems. OTS ensures that its staff is well trained to identify and address current and emerging risks and that examiner guidance is appropriate and current.

OTS uses over 83 percent of resources and revenues to achieve this critical strategic goal that directly supports the mission of the agency.

Performance Goals

1. Ensure that OTS-regulated thrifts operate in a safe and sound manner through effective supervision.
2. Maintain a thrift industry that is sufficiently capitalized.
3. Conduct examinations in an efficient and effective manner.

Strategies for Achieving Performance

1. Ensure that OTS-regulated thrifts operate in a safe and sound manner through effective supervision.
 - a. Perform ongoing evaluation of the examination and supervision process to ensure timely identification of new or emerging problems, timely and appropriate supervisory or enforcement actions to remedy identified problems, appropriate follow-up and corrective actions, and adequacy of examiner guidance with consistent application of such guidance.
 - b. Enhance the agency's capacity to monitor, identify, and assess individual and systemic risk factors affecting the thrift industry.
 - c. Conduct periodic discussions with the OTS Director, Deputy Director, and other senior staff in Washington on risks and strategies for supervising high-risk institutions, and nontraditional institutions, including diversified holding companies.
 - d. Encourage a high level of communication with the industry and share information on industry best practices and emerging risks.

- e. Provide training for examiners and examination support staff to identify and deal with emerging issues and risks, such as those associated with new financial instruments, electronic banking, and new types of trust activities.
- f. Review thrift institutions' compliance with the requirements of the Bank Secrecy Act, including the USA PATRIOT Act, OFAC, and other anti-money laundering laws.
- g. Review thrifts' continuity of operations and emergency preparedness plans during examinations.
- h. Participate on the FBIIC to improve the reliability and security of the financial industry's infrastructure.

2. Maintain a thrift industry that is sufficiently capitalized.

- a. Conduct on-going monitoring of capital levels and earnings performance and implement timely corrective actions to minimize the occurrence of, and promptly resolve, inadequately capitalized institutions.
- b. Attend Basel Committee for Banking Supervision meetings as the group updates and revises the Basel Capital Accord to make capital standards required of internationally active financial institutions more comprehensive and risk sensitive. Participate with domestic federal banking regulators in the careful development and implementation of any prudent changes to the domestic regulatory capital regulatory structure.

3. Conduct examinations in an efficient and effective manner.

- a. Continue tailoring supervisory examinations to the risk profile of the institutions, including the development of a new top-down, risk-focused procedures for compliance management and streamlined examination procedures for small, noncomplex, well rated institutions, while effectively allocating resources to oversee and assess the safety and soundness and consumer compliance record of thrift institutions.
- b. Enhance OTS's overall efficiency and effectiveness by combining the safety and soundness and compliance examinations. In melding these examinations, OTS ensures that compliance standards do not compromise safety and soundness and that safety and soundness standards do not undermine compliance.
- c. Increase interagency cooperation in areas common among the FDIC, OCC, and OTS; the agencies may share training and work to reduce costs without abrogating their individual primary regulatory responsibilities.
- d. Enhance information and examination support systems.

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

OTS strives to reduce the regulatory burden on thrifts while maintaining effective supervision by improving the application process, maintaining the current assessment rates, and supporting the ability of federal thrifts to operate under uniform national standards. OTS has significantly reduced the amount of on-site examination time, redesigned regulations to make them easier to understand, and eliminated unnecessary restrictions.

OTS receives no appropriated funds from Congress but funds its operations through periodic assessments charged to the thrift industry. Annually OTS analyzes its operating costs and compares them to the assessments it charges thrifts in order to achieve an assessment structure that keeps assessment rates as low as possible while providing OTS with the resources necessary for effective supervision.

OTS is implementing a multi-year plan to improve the examination process by combining the safety and soundness and compliance examination functions and by issuing one report of examination with a more comprehensive assessment of an institution's risk profile.

In 2003, the federal financial regulatory agencies began a three-year effort to obtain suggestions from the industry and public on more streamlined and less burdensome ways to regulate. The interagency Economic Growth and Regulatory Paperwork Reduction Act (EGCFPRA) project will review regulations for unnecessary burden.

OTS supports the merger of the Bank Insurance Fund and Savings Association Insurance Fund in order to promote efficiency and ensure a more stable insurance system. OTS also supports other legislative regulatory relief efforts, including eliminating the disparate treatment of thrifts and banks under the securities laws and efforts to permit depository institutions to pay interest on business transaction accounts.

Performance Goals

1. Minimize financial regulatory burden on thrifts.
2. Process applications in a timely manner.

Strategies for Achieving Performance

1. Minimize financial regulatory burden on thrifts.
 - a. Without compromising responsibilities and the risk-based examination approach, OTS strives to manage its operations and budget to ensure no increases in assessment rates.

- b. Minimize examination time and the burden examinations can impose on thrift institutions by tailoring them to the risk profile of the institution, conducting melded safety and soundness and compliance exams, and developing streamlined examination procedures for small institutions.
- c. Work with the Senate Banking Committee and House Financial Services Committee staff to promote OTS's regulatory burden reduction initiatives.
- d. Participate on federal financial regulatory agencies' three-year effort to review regulations for unnecessary burden. Seek input from the industry, community groups, and staff on more streamlined and less burdensome ways to regulate. Recognize where differential regulation (based on size, condition, or other relevant considerations) may be appropriate.
- e. When requested by savings associations, review the laws and regulations of other governmental entities that affect or purport to affect the operations of savings associations to determine if they impose unnecessary or redundant regulatory costs and burdens upon thrifts. Consult with federal, state, and local officials to identify and minimize these burdens. Provide guidance, interpretations, and legal support to help minimize regulatory costs and burdens.
- f. Maintain a flexible supervisory environment to support the industry's safe and sound modernization, evolution, and competitiveness in a changing financial environment.

2. Process applications in a timely manner.

- a. Review the outstanding delegation of applications to the regional offices and determine whether additional applications may be delegated.
- b. Further streamline the applications process by reviewing regulations and application requirements to determine which applications may be eliminated, consolidated, or converted into notice (before or after the fact) requirements.
- c. Review applications to identify opportunities for electronic filing.
- d. Coordinate application processing with OTS legal, compliance, and supervision staffs.

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

Washington and regional staff from examination, policy and community affairs promote industry adoption of comprehensive compliance management programs and encourage associations to strategically develop the diverse opportunities presented by the communities they are chartered to serve.

Performance Goals

1. Maintain a thrift industry that effectively complies with consumer protection laws and regulations.
2. Educate industry representatives on community development issues to promote community reinvestment and increased access to financial services.

Strategies for Achieving Performance

1. Maintain a thrift industry that effectively complies with consumer protection laws and regulations.
 - a. Conduct examinations with a top-down, risk-focused approach that promotes comprehensive compliance management including the establishment of adequate internal controls to ensure regulatory compliance and to avoid predatory practices.
 - b. Develop policy statements to help guide savings associations in their efforts to assimilate changing regulatory requirements and foster the adoption of best practices when serving consumers.
 - c. Use the application process to ensure that savings associations have management programs appropriate to the compliance risks associated with their business plans and responsive to the credit needs of the entire community they are chartered to serve.
 - d. OTS, along with the Treasury Department, the other federal banking regulators, and various law enforcement agencies and personnel, regularly and actively meet to discuss strategies and goals for implementing the BSA and its implementing regulations.
2. Educate industry representatives on community development issues to promote community reinvestment and increased access to financial services.
 - a. Provide information to the industry about current community development issues, best practices, investment authority, training opportunities, subsidy resources, and reference materials.

- b. Through CRA evaluations, outreach, and other means, identify competitive initiatives and sound business strategies used by savings associations to achieve responsible delivery of affordable housing financing and other financial services to under-served markets.
- c. Afford technical assistance or sponsor training opportunities that support responsive community reinvestment and the prudent use of an association's community development investment authority.

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

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

OTS strives to maintain a workforce that is professional and well trained to regulate the thrift industry and to deal with the public in a professional, informed and responsive manner. OTS provides the public with statistical reports, securities filings of OTS registrants, chartering records, and other public information. OTS assists thrift customers with inquiries and complaints concerning thrift institutions. OTS is committed to providing employees with challenging work, honest feedback, and opportunities for growth, and to recognizing and rewarding delivered results.

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

Performance Goals

1. Meet levels of customer service.
2. Meet examination objectives and achieve customer satisfaction with examination process.
3. Strategically manage the OTS workforce by aligning human capital strategies to the OTS mission, guiding principles, goals, and objectives.
4. Maintain accurate and timely financial information to support operating, budget, and policy decisions.

Strategies for Achieving Performance

1. Meet levels of customer service.
 - a. Ensure staff responsible for consumer service plans manage and achieve targeted service levels. Adjust customer service plans where necessary.
 - b. Maintain systems to provide timely access to metrics measuring customer service levels.
 - c. Maintain an internal review process to identify "best practices" and ensure information is shared among agency staff.

2. Meet examination objectives and achieve customer satisfaction with the examination process.
 - a. Conduct an annual thrift satisfaction survey to ensure that industry concerns are communicated and addressed. Institution feedback from the survey is used to evaluate the effectiveness of the examination and supervisory process.
 - b. Work with the industry to offer a program of instruction to assist thrift directors in becoming more aware of the best practices of efficient boards of directors. Ensure that the Directors' Guide to Responsibilities, and Directors' Guide to Management Reports are available to the directors of all OTS-regulated institutions.
 - c. The OTS Ombudsman will facilitate resolution assistance across organizational lines of responsibility through mediation, facilitation, negotiation, or other alternative resolution methods appropriate to a particular issue.
3. Strategically manage OTS workforce by aligning human capital strategies to OTS mission, guiding principles, goals, and objectives.
 - a. Cross-train examination staff to ensure full capability to conduct melded examinations.
 - b. Support staff's professional development to ensure necessary competencies and job satisfaction.
 - c. Train or recruit staff to meet the evolving practices in the thrift industry.
4. Maintain accurate and timely financial information to support operating, budget, and policy decisions.
 - a. Provide timely monthly financial data online to operational staff.
 - b. Consistently use financial and performance information during operational evaluation and decision-making.

Key External Factors Affecting Achievement of Goals

Institution failures have been nominal for several years. However, a significant single event could significantly impact the health of the thrift industry, increase OTS's examination workload, and alter current staffing projections for examiner, legal, and investigative personnel. Following are several factors that could affect OTS's ability to achieve its mission and goals:

Industry consolidation – Consolidation of the financial industry provides opportunities and challenges to OTS. Consolidation may require OTS to supervise and examine larger institutions conducting non-traditional activities over a wider geographic area and in unusual corporate structures. OTS also needs to be alert to ensure that consolidation does not limit consumer choice or reduce the reach of the Community Reinvestment Act. By working closely with these larger institutions, OTS often has the opportunity to assist them in providing more and different types of resources to underserved areas.

Systemic economic events and risks - A systemic event is the breakdown in the functioning of one environment that could spread to others causing sufficient harm to the well-being of the whole system. Systemic economic events such as a stock market crash or international financial crisis could cause a substantial reduction in aggregate economic activity, such as housing starts, home sales, consumption, output and employment. Systemic risk is the possibility that an event may occur. Mitigating systemic risk and responding to systemic events are concerns of all five of the financial regulators. Types of systemic events that could affect OTS's ability to achieve its strategic goals are:

1. **Sharp increase in market rates** – The current vibrant housing market has been a significant factor in the thrift industry's strong financial performance. However, a large and sustained increase in interest rates could impact the performance of the industry.
2. **Disruptions in business as a result of an external threat** – The September 11th terrorist attacks on the World Trade Center and the Pentagon shook America's sense of peace and made us painfully aware of the many things that Americans take for granted. Terrorist attacks could limit OTS's ability to achieve its mission and thrifts' ability to serve their financial communities. Through the FBIIC, Treasury and its bureaus are improving the reliability and security of the financial community.

Human Capital: Significant fluctuations in the national or global economy, as well as major disruptions from terrorist actions, may impair OTS's capability to accomplish its mission and to execute its full regulatory functions.

Technology: Technology provides new methods for savings associations to offer traditional products and services through new delivery methods and to develop innovative products and services. Technology changes influence operating strategies and often

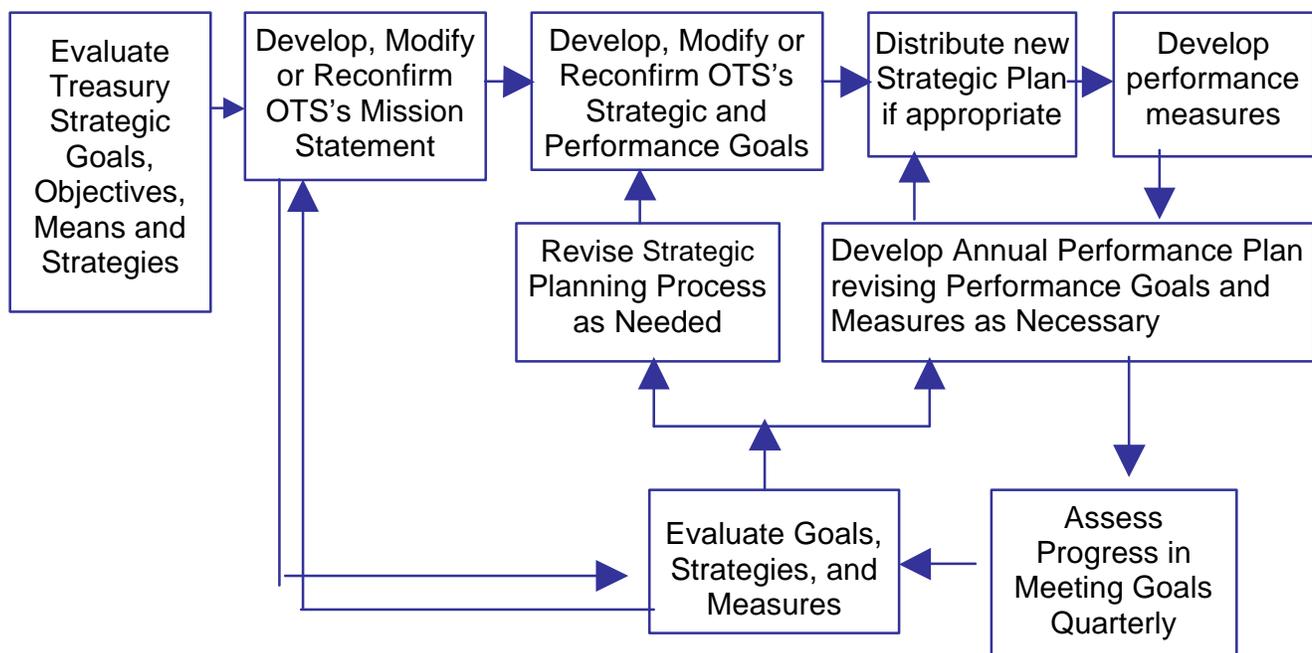
increase security risks if not properly managed. OTS's IT and Safety and Soundness examiners must continually adapt to appropriately address these new risks.

Legislative – Legislative changes may require new or revised issuance of guidance or rulemaking. Outreach programs with our savings associations may be needed to share information and provide direction. Supervisory and examination activities may need alteration to address new thrift powers and corresponding risks.

Appendix A: Strategic Management Process

OTS's mission statement and strategic plan set a course for the organization. The strategic plan contains long term goals and objectives that are implemented through the annual performance plan. OTS's strategic plan is modified every three years in accordance with the Government Performance and Results Act and after analyses of operational and legislative changes, emerging risks, performance reports, and program evaluations.

OTS's strategic planning process includes a systematic approach to establishing and revising OTS's major goals and objectives. OTS management annually reviews the four strategic goals and corresponding performance goals and measures. OTS's planning process is shown below:



Appendix B: Relationship between OTS and Treasury Goals

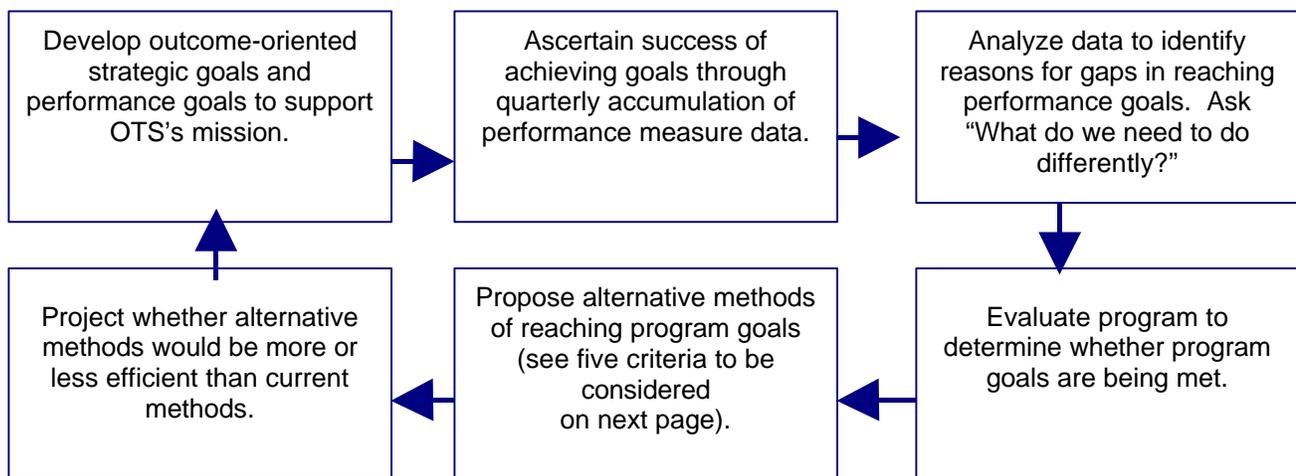
Treasury Strategic Goal	OTS Strategic Goal	OTS Performance Goals
Preserve the integrity of financial systems.	A safe and sound thrift industry.	<p>Ensure that OTS-regulated thrift institutions operate in a safe and sound manner through effective supervision.</p> <p>Maintain a thrift industry that is sufficiently capitalized.</p> <p>Conduct examinations in an efficient and effective manner.</p>
Promote prosperous U.S. and World economies.	A flexible legal and regulatory framework that enables the thrift industry to provide a full competitive array of financial services.	<p>Minimize financial regulatory burden on thrifts.</p> <p>Process applications in a timely manner.</p>
Preserve the integrity of financial systems.	Fair access to financial services and fair treatment of thrift customers.	<p>Maintain a thrift industry that effectively complies with compliance laws and regulations.</p> <p>Educate industry representatives on community development issues to promote community reinvestments and increased access to financial services.</p>
Ensure professionalism, excellence, integrity and accountability in the management and conduct of the Department of Treasury.	A professional and motivated workforce that provides exceptional service to its customers and supports achievement of OTS business goals.	<p>Meet levels of customer service.</p> <p>Meet examination objectives and achieve customer satisfaction with examination process.</p> <p>Strategically manage OTS workforce by aligning human capital strategies to OTS mission, guiding principles, goals, and objectives.</p> <p>Maintain accurate and timely financial information to support operating budget, and policy decisions.</p>

Appendix C: Program Evaluations

Internal and external program evaluations are used to evaluate whether the OTS program is achieving results in an effective manner. Evaluation and review results are used to support the annual assurance statement to Treasury and to revise goals, measures, and strategies.

OTS's strategic planning effort is a dynamic and inclusive process. OTS has one primary program responsibility—the supervision of thrift institutions. This program responsibility is reflected in OTS's clear and concise mission statement and four outcome-oriented strategic goals.

OTS's four strategic goals guide the agency's day-to-day activities and core processes and help ensure that resources are used to support mission-related outcomes. As the thrift environment evolves, OTS will alter its strategic goals, performance goals, and activities to meet any new challenge and to enable OTS to continue to effectively and efficiently accomplish its mission in the immediate thrift environment. OTS measures the progress of achieving its performance goals through the development and quarterly tracking of outcome-oriented performance measures. OTS's program evaluation process is illustrated in the diagram below:



Internal Evaluations

The health of the thrift industry and the OTS's performance measures cited in OTS's annual Performance Plan indicate that OTS is accomplishing its program requirements. OTS frequently conducts process evaluations to enhance its ability to effectively accomplish its program responsibilities. A process evaluation is an assessment of operating policies and practices used to accomplish overall program responsibilities. OTS conducts process evaluations as needed.

OTS maintains strong controls against fraud, waste, and abuse in compliance with the Federal Managers' Financial Integrity Act (FMFIA). In addition to strong internal controls, OTS maintains comprehensive financial management controls, personnel security controls, computer security, and strong asset accountability programs. OTS maintains budgetary integrity through the continual oversight and monitoring of its annual budget. OTS reviews its existing FMFIA

program annually to ensure that it satisfies all statutory requirements and OMB guidance, and that it facilitates managers' participation and compliance. OTS's FMFIA program is modified as statutory requirements and OMB guidance change.

OTS's Annual Assurance Statement for the fiscal year ending September 30, 2002, as required by the Federal Managers' Financial Integrity Act (FMFIA), certified that OTS's management control systems are adequate and ensure that programs achieve their intended results; resources are used consistent with the OTS mission; programs and resources are protected from waste, fraud, and mismanagement; laws and regulations are followed; and reliable and timely information is obtained and used for decision making. In addition, none of the quality assurance and other reviews, audits, management studies, or program and annual evaluations conducted during FY 2002 identified any Section 2 significant or "material" weaknesses, or Section 4 material nonconformance.

External Program Evaluations:

External program evaluations and reviews are conducted by the Government Accounting Office (GAO), the Office of Management and Budget (OMB) and/or the Treasury Inspector General. The findings and recommendations of OTS's external evaluations and reviews are reported annually in our annual FMFIA assurance statement.

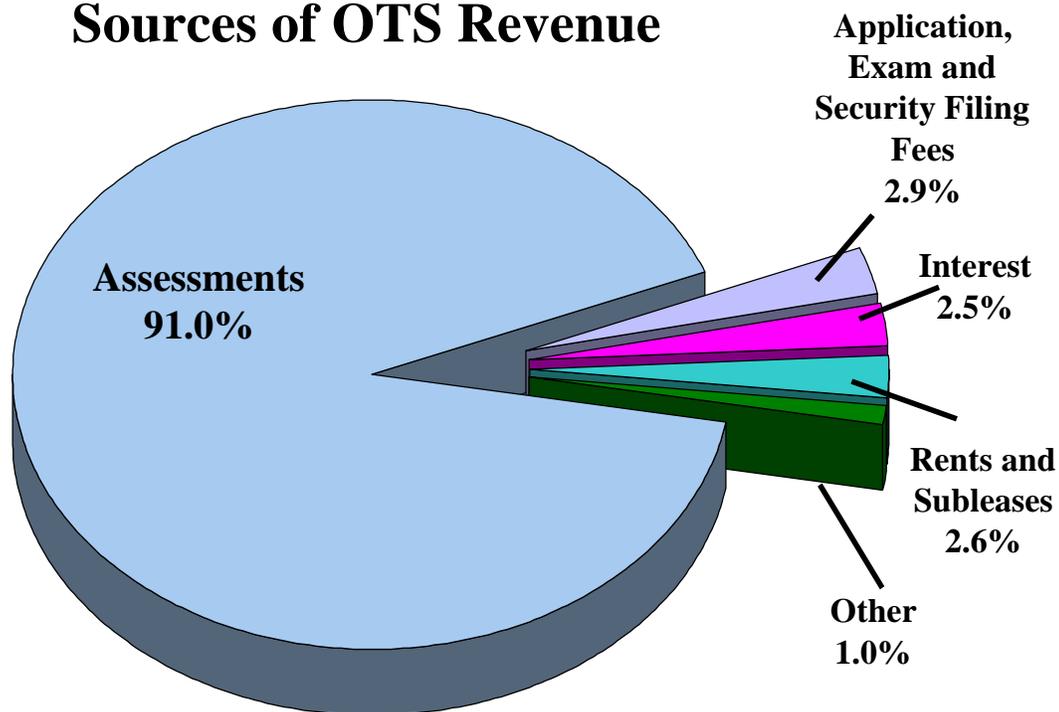
During 2002, OMB evaluated OTS using the Program Assessment Rating Tool (PART). The PART is a systematic process for evaluating program performance to make budget decisions. The PART assessed four critical areas: purpose and design, strategic planning, management, and results and accountability. There were four possible qualitative ratings: Effective, Moderately Effective, Adequate and Ineffective. OTS received an overall numerical rating of "93" and a qualitative rating of Effective.

The foundation of OTS's financial management control program is its annual financial statement audit. The independent, certified public accounting firm of Deva & Associates, under contract with the Treasury Inspector General and OTS, conducted the 2002 audit. Since being formed in 1989, OTS has received unqualified opinions on its financial statements.

Appendix D: Means to Accomplish Strategic Goals

Operating Capital : OTS receives no appropriated funds from Congress. FIRREA provided OTS with the authority to fund its operations through periodic assessments charged to the thrift industry. Assessments constitute the largest single component (90.1%) of total OTS income. OTS also receives funds from application fees, interest, rents and subleases, exam fees, and other miscellaneous sources.

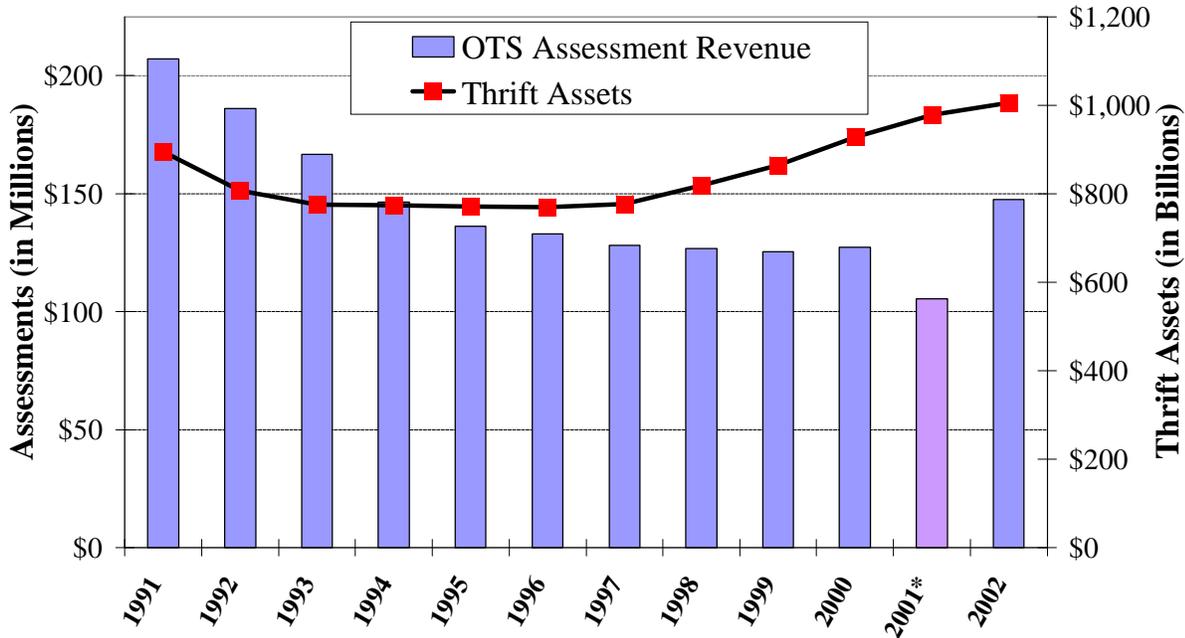
Sources of OTS Revenue



Percentages based on 2003 revenue.

OTS's assessment structure uses rates that decline as the asset size of individual thrifts increase because experience has revealed that there are economies of scale associated with the supervision of larger thrifts. The consolidation of the thrift industry has resulted in fewer thrifts with greater average assets. Thus, as the average thrift has grown, the price of regulation per asset dollar has decreased.

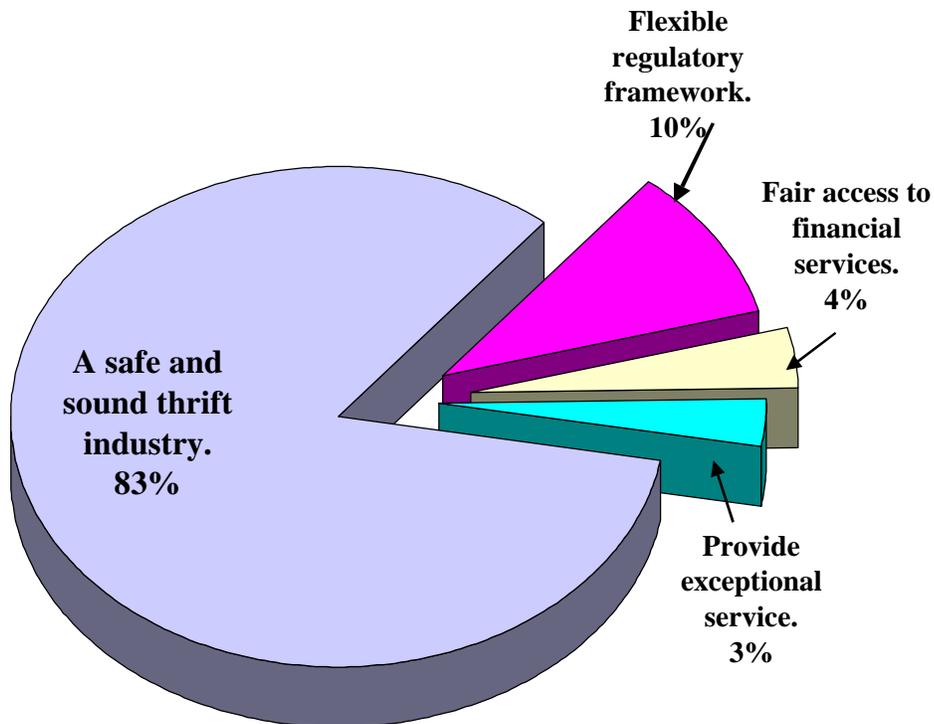
The Price of Regulation Per Asset Dollar Has Decreased



*OTS switched its budget to a fiscal year in 2001. Thus, the 2001 assessment number reflects only 9 months of revenue.

OTS annually evaluates its budget support for its four strategic goals. Maintaining a safe and sound thrift industry is OTS's critical strategic goal and utilizes the majority of OTS's resources (83%).

OTS's Budget Appropriately Supports OTS's Four Strategic Goals



Excellence in Financial Management: OTS is committed to excellence in financial management. OTS's financial management systems provide timely, auditable information that supports the incorporation of financial and performance measurement in the planning, budgeting, and reporting processes. After assessing the risk associated with upgrading the accounting system, OTS transitioned from its in-house core financial management systems to services provided by the Bureau of Public Debt's Administrative Resource Center (ARC). This transition began in 2001 and was completed in May of 2003.

Human Capital: The OTS staff consists of highly qualified individuals who represent America's diversity. To responsively supervise thrifts, OTS staff must evaluate complex thrift business characteristics associated with risk management and capital adequacy and be prepared to take immediate corrective measures to mitigate problems. OTS staff must evaluate the credit, interest rate, and other market risk dimensions of new lines of business, financial instruments, risk management strategies, and corporate structures while ensuring consumer protection and confidence. Examinations and evaluations require more sophisticated strategies and more complicated financial analyses incorporating the use of econometric models that subject individual thrift portfolios to "stress tests" or other forms of sensitivity analysis. OTS also requires a highly trained and experienced legal staff to address the complex questions concerning these issues.

The increasing industry interest in using electronic banking technologies requires staff to enhance its electronic banking examination program that helps examiners evaluate an institution's strategies, planning, administration and internal controls. The increasing industry interest in obtaining fiduciary powers requires OTS to augment its national trust examination program by enhancing examiner training and changing the focus of its trust examinations to embrace a risk-sensitive scoping methodology.

Staff Skills: OTS management is committed to maintaining a high degree of competence and skill for OTS employees. Formal courses are the primary method of achieving these objectives; however, strong emphasis is placed on using alternative resources and means of development. Mentoring, cross-training, assignments to other offices or departments, research, reading, and self-study programs are examples of OTS's broad approach to employee development.

In 2002, OTS launched a major training initiative to prepare OTS examiners for the melding of examinations. Through a combination of formal classes, independent study, and on-the-job experience, examiners acquire proficiency in areas in which they are not accredited so that they can serve as examiner-in-charge of a fully melded examination. The program ensures that the candidate has sufficient knowledge to act in an accredited capacity. Two online review courses assist examination staff prepare for the comprehensive tests required before the Certified Thrift Examiner designation is awarded.

Information Technology: OTS supports management reforms, such as the Clinger-Cohen Act, the Paperwork Reduction Act, and the Government Performance and Results Act, which require agencies to establish a process for maximizing the value of IT investments. Effective use of information technology enhances OTS's ability to accomplish its mission and goals. The objectives of Information Technology (IT) are to:

- Integrate IT planning with OTS strategic planning.
- Minimize data collection impact on the thrift industry.
- Capture information once, at its source, secure it, and make it easily available to all staff.
- Continually assess and leverage technological opportunities for achieving OTS's mission more effectively.
- Develop and implement IT initiatives and new applications within the scope of the IT architecture and standards.
- Ensure enterprise-wide integration of IT security.
- Identify and approve annually IT initiatives that address strategic goals.

Appendix E: Data Capacity

Performance Measure Verification and Validation: The quantitative values reported for the performance measures in OTS's Performance Plan are accurate and auditable. Several of the quantitative values are generated with the help of OTS's automated systems, which are routinely validated to ensure that they produce accurate information.

The Electronic Continuing Exam Folder (ECEP) serves as a means to access reports and documents for each OTS-regulated institution. Authorized regional users add and manage categories and documents for this system through the OTS Intranet Content Management system. OTS employees may view ECEP content published by any region.

For each performance measure, a "contact person" is assigned. The contact person is responsible for ensuring that the "level of success" reported in OTS's Performance Report is accurate. The contact person is also responsible for keeping auditable records.

OTS's quality assurance program, which has been in place since 1991, provides internal quality control for the examination process and for administrative, legal, and policy functions. OTS's Quality Assurance Reviews determine the accuracy, reliability and fairness of information and financial data produced within the regions and ensures that all regional information complies with Federal Managers' Financial Integrity Act (FMFIA) standards. FMFIA requires the Department heads to issue annual quality assurance statements.

Financial Presentation: OTS complies with all applicable Generally Accepted Accounting Principles (GAAP), Federal Financial Accounting Standards, and internal control principles. OTS's financial transactions are reported on an accrual basis. The Financial Operations Division continually reviews new Statements of Federal Financial Accounting Standards and modifies accounting policy, procedures, and reporting, as needed.

Appendix F: Challenges and Consultations

Major Management Challenges and High Risk Areas

GAO and OIG have not identified any high-level management challenges for OTS to address. OTS is well situated to operate efficiently and effectively and has no outstanding material weaknesses or internal control problems and no significant audit or systems problems.

Consulting with Stakeholders

The American public benefits from a strong thrift industry. OTS strives to provide the savings associations it regulates with as much voice in the regulatory process as possible, usually winning voluntary compliance. To assess the quality of OTS's service, staff members continually collect information and feedback from thrifts, their customers, and other affected parties. OTS informs both customers and thrifts of its strategic planning process and strategic initiatives through our website, participation in outreach opportunities, and speeches to industry trade groups.

To help ensure OTS provides excellent customer service without compromising safety and soundness, OTS developed customer service standards for the Examination process, Congressional correspondence, External Interpretive Opinions, Public Information, and Consumer Assistance. The service plans seek to improve communication between OTS and one or more stakeholder or customer groups.

During an examination, examiners conduct entrance and exit meetings. At the exit meeting the Examiner-in-Charge meets with either the thrift's senior management team or Board of Directors to summarize all findings of the examination and any corrective action plans. Following an examination, the report of examination (ROE) is forwarded to the institution within 30 days after completion of field work for institutions rated 1 or 2 and within 45 days for institutions rated 3, 4, or 5. OTS supervisory staff often meets with an institution's Board of Directors after delivery of the ROE to discuss findings and recommendations. Between examinations, a member of OTS's supervisory team routinely contacts each institution and is available to meet as needed. To ensure that OTS continues to provide the highest possible level of service and oversight to the industry, we revised our management survey to CEOs. The Annual Thrift Satisfaction Survey allows OTS to monitor its performance and address problems or recommendations.

OTS's regional offices actively solicit advice from and provide information to thrifts in their region. Regional staff participate in regulator-sponsored, industry-sponsored, and institution-sponsored training conferences, workshops, and seminars on accounting and financial management, directors' responsibilities, the PATRIOT Act, Community Reinvestment Act, fair lending, and other compliance issues.

OTS communicates with stakeholders and interested parties outside of the supervisory process. OTS's draft Strategic Plan, along with a request for comments, will be sent to the Chairman and a ranking member of the Committee on Banking and Financial Services, U.S.

House of Representatives and to two ranking members of the Committee on Banking, Housing and Urban Affairs of the United States Senate.

OTS participates with the Results Act Banking Regulatory Working Group, which meets monthly and includes representatives from the Comptroller of the Currency, Federal Deposit Insurance Corporation, the Federal Reserve Board and the National Credit Union Administration. The purpose of the group is to coordinate strategic planning activities.

OTS's 2003 - 2008 Strategic Plan and 2003 Performance Plan are available on the OTS Internet Web site and can be found at www.ots.treas.gov. Posting the Strategic Plan to the Internet facilitates comments from all stakeholders and affected parties.