

The seal of the Office of Thrift Supervision is a large, light blue circular emblem in the background. It features a central shield with a scale of justice, a sword, and a laurel wreath. The shield is surrounded by a ring of stars. The outer ring of the seal contains the text "OFFICE OF THRIFT SUPERVISION" at the top and "1989" at the bottom.

OTS 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 ■

Strategic Goals

- A safe and sound thrift industry
- Fair access to financial services and fair treatment of thrift customers
- A flexible legal and regulatory framework that enables the thrift industry to provide a full competitive array of financial services
- A professional, highly motivated and diverse workforce that effectively uses OTS resources to provide exceptional service to its customers ■

Office of Thrift Supervision Annual Report

On the Inside

- 3 Message from the Director
- 5 Strategic Focal Points
 - Consolidated Supervision
 - Preemption
 - Branching
 - Diversity of Institutions
 - Mutuality
 - Regulatory Approach
 - International
- 9 About the OTS
 - Agency Profile
 - Agency History
- 13 Year in Review
- 14 OTS Regions
 - Northeast Region
 - Southeast Region
 - Central Region
 - Midwest Region
 - West Region
- 25 OTS Operations
 - Supervision and Consumer Protection
 - Legal Affairs
 - Employees
 - Public Affairs
 - Information Technology
 - Financial Management

OTS & the Thrift Charter

The OTS supervises a national thrift industry that is built on the bedrock of the American dream of homeownership — supplying affordable home financing for Americans from all walks of life.

The industry has a long history dating back to 1831 with the establishment of the first savings association, the Oxford Provident Building Association, which made home loans and offered savings accounts. Today, the charter is a vibrant, sophisticated model for running a retail financial services business.

Home mortgages remain a staple of the thrift industry. However, the array of financial products and services offered by many institutions and their holding companies paints a modern-day portrait of great diversification within the industry based on size, complexity and business strategy.

Three unique advantages of the federal thrift charter foster this diversification:

Preemption

The federal thrift charter operates under a comprehensive framework of federal regulations that supersede state and local laws on lending and deposit taking activities. This provides a uniform national standard for lending and deposit taking, thereby reducing regulatory burden and increasing the efficiency of operations at thrift institutions. This authority supports the



delivery of low-cost credit and other services to the public, while maintaining consumer protections and promoting the safety and soundness of federal thrifts and the nation's financial industry.

Branching

Federal thrifts enjoy the distinctive ability to establish branches nationwide, seamlessly and without restriction, under a single charter and a single regulator.

Single Regulator

Savings and loan holding companies, and their thrift subsidiaries and affiliates, operate under the consolidated supervision of a single federal regulator, the OTS.

The thrift charter is employed by some of the largest financial enterprises in the world, as well as small, one-office savings associations. Financial institutions from across the nation and a number of international financial firms have found that the thrift charter and the experienced, responsive workforce of the OTS provide an ideal framework for conducting retail banking operations and related financial services activities. The charter enables these institutions to meet the needs of their customers and to innovate effectively, compete and prosper in today's fast-paced financial marketplace ■



Today, the charter is a vibrant, sophisticated model for running a retail financial services business.

Message from the Director

John M. Reich, Director, Office of Thrift Supervision



This Annual Report is the first such report from the Office of Thrift Supervision in many years, just one of several “firsts” since I came on board as OTS Director in August 2005.

I made a decision when I started this job that I would revitalize the OTS and make its renewed strength match that of the thrift industry, which has grown significantly since the agency was formed 18 years ago. In the last five years, industry assets have grown by more than 55 percent.

For the first time in many years, we have decided to issue an Annual Report to chronicle what the OTS does and describe why that work is vital to the health of the financial services

industry and the economic well-being of American consumers.

Also for the first time in many years, we are hiring at OTS, seeking talented entry-level and experienced employees to join our examination force, to fill spots left by retiring workers and to establish a springboard for agency leadership succession in the years ahead. At the end of fiscal 2007, we had a workforce more than 1,000 strong — an increase of nearly 14 percent since I started as OTS Director.

As part of my drive to strengthen and rejuvenate the OTS, we have restructured the agency’s compliance and community affairs functions, created a new Central Region, compiled a solid budget and continued to build agency reserves. These efforts have brought a renewed vigor to the agency and energized our employees.

Our agency retains its historic focus on helping to fulfill the desires of Americans to own their own homes and thereby form a foundation for stable and thriving communities across the nation. But the thrift charter is also an ideal platform for innovative business strategies to operate a wide range of modern financial services enterprises. A major goal of mine has been to highlight the distinct strengths of the thrift charter for new and existing institutions.

We are also raising the profile of the OTS by attending banking industry conferences, displaying our new OTS information booth, talking with



OTS information booth at one of the many stops in 2007.

financial service executives about the value of the thrift charter and answering questions about the role of thrift institutions in today's financial services marketplace.

I hope you like what you see in this fiscal 2007 Annual Report and in OTS as a responsive and expert regulator

that stands ready to take on the challenges that lie ahead. My personal goal is for us to make the most of every opportunity along our path toward America's financial services future ■

John M. Reich
Washington, D.C.

Strategic Focal Points

The thrift charter has seven strategic focal points that continue to distinguish the charter and propel its success and utility to financial services firms. These focal points provide unique advantages to financial services providers currently operating under business models tailored to the charter's strengths and also offer potential opportunities to other financial services firms.

1 Consolidated Supervision

Consolidated Supervision of Savings Associations and Their Holding Companies Streamlines Regulatory Oversight

Seamless supervision of both entities minimizes regulatory duplication.

The OTS utilizes a flexible and seamless approach to its supervisory oversight. Thrift holding companies and affiliates, which range from non-complex companies with limited activities to large, internationally active conglomerates, are examined concurrently with their thrift subsidiaries. OTS examinations are supplemented by off-site monitoring.

For the most complex holding company structures, we conduct continuous supervision. We also streamline our process by coordinating our examination and supervisory efforts with other bank regulatory agencies and functional regulators of related entities, such as securities firms and insurance companies ■

2

Preemption

Unsurpassed Strength of Federal Preemption Authority

Uniform national framework under federal thrift charter permits conducting nationwide operations under a single set of federal laws and regulations for lending and deposit taking.

Federally chartered savings institutions operate under a nationwide scheme of oversight and supervision that is free from the duplication and burden of overlapping regulations by state and local governments. This nationwide lending and deposit taking authority is provided directly by federal statute and has been consistently upheld by the courts, including the U.S. Supreme Court. Pursuant to this authority, the

OTS occupies the field with respect to the oversight of the lending and deposit taking activities of federal thrifts. The OTS administers this authority to ensure maximum flexibility for thrifts to deliver low-cost credit and other services to the public, consistent with strong and appropriate consumer protections, and safe and sound banking operations ■

3

Branching

Nationwide Branching Offers Room for Growth

The thrift charter provides the freedom to establish branches across state lines without restriction or condition.

Coupled with strong federal preemption authority, the unique branching opportunities afforded federally chartered thrifts form an ideal framework for conducting a nationwide retail financial services business. Federal thrifts can grow across the nation, operating under a

single charter and a single set of regulations, and subject to oversight by a single federal regulator, the OTS. Federal thrifts have taken full advantage of this branching capability by establishing more than 10,000 branches, with nearly 40 percent of these branches across state lines ■

4

Diversity

The Flexible Framework of the Thrift Charter Appeals to a Wide Range of Business Operating Strategies

Modern business strategies venture far beyond the traditional thrift model.

The range of business activities permissible under the thrift charter span a spectrum that runs from locally focused community banks to innovative nationwide lenders, international conglomerates with Internet-based strategies, Wall Street firms that use the charter to complement their existing securities

business activities and major insurance companies. Although the thrift industry continues to be built on the foundation of American homeownership, the charter is a vibrant and innovative vehicle for conducting a financial services enterprise in today's ever-changing marketplace ■

5

Mutuality

Mutual Ownership of Thrifts Supports America's Communities

People who work together and live together can combine financial resources for a brighter economic future.

The history of the mutual form of thrift ownership is as old as the industry itself, dating to the formation in 1831 of the first savings association — the Oxford Provident Building Association. By buying shares in the association and pooling their money, association members came together to realize the dreams of homeownership that had been out of reach. Free from stockholder calls for larger returns, mutual thrifts still tend to be small, locally focused institutions that are woven into the

fabric of the communities they serve. The agency tailors its examination procedures and off-site monitoring systems to the unique characteristics and operations of these mutuals. Despite an increasing number of conversions to stock ownership, mutuals continue to play an important role in providing financial services to communities across America. Almost 40 percent of the thrifts supervised by OTS — with \$65 billion in assets — are mutually owned ■

6 Regulatory Approach

The OTS Is Dedicated to Expert, Responsive Supervision

Regulatory approach defines clear boundaries while minimizing burden.

At the OTS, we focus our regulatory approach on maintaining a thriving, safe-and-sound thrift industry that complies with applicable regulations and protects consumers. We strive to achieve that goal with a minimum of burden on the industry. We have an

expert staff that is lean, accessible and hands-on. Our business-oriented approach allows savings banks to innovate, compete and prosper, but firmly ensures that growth remains consistent with the best principles of banking and consumer protection ■

7 International

The Thrift Industry Is Part of a Global Financial Marketplace

Worldwide financial conglomerates supervised by the OTS operate in more than 100 countries.

OTS-supervised holding companies hold about \$8.5 trillion in U.S. domiciled assets. As these enterprises continue to expand their international operations, OTS officials are further extending their coordination with international regulators to ensure effective supervision with minimal regulatory overlap. In a striking sign of how well other nations regard the quality of OTS supervision, the OTS

has achieved the designation under European law as the equivalent consolidated supervisor for GE Capital Services, Ltd., AIG Inc. and Ameriprise Financial Group. With the growing globalization of financial services, the OTS works with fellow regulators across the world to gain a broad international perspective on each commonly-supervised firm's risk profile and financial performance ■

About the OTS

Agency Profile

The OTS is the federal bank regulator and supervisor of a dynamic and diverse industry of savings associations and their subsidiaries across the nation. The OTS also oversees domestic and international activities of the holding companies and affiliates that own these thrift institutions.

The OTS is an office within the Department of the Treasury. The agency oversees 831 thrift institutions with assets of \$1.57 trillion, as well as 470 thrift holding companies with U.S. domiciled assets of about \$8.5 trillion.



OTS Director John M. Reich (front, center) with the OTS senior management team. Clockwise along exterior: Robert W. Russell, Counsel to the Director; Thomas A. Barnes, Regional Director, OTS Central Region; Wayne Leiss, Chief Information Officer and Chief Financial Officer; Timothy T. Ward, Deputy Director for Examinations, Supervision and Consumer Protection; Darrel W. Dochow, Regional Director, OTS West Region; Michael E. Finn, Regional Director, OTS Northeast Region; John E. Ryan, Regional Director, OTS Southeast Region; Frederick R. Casteel, Regional Director, OTS Midwest Region; Montrice G. Yakimov, Managing Director for Compliance and Consumer Protection; Lori J. Quigley, Managing Director for Examinations and Supervision Operations; Scott M. Polakoff, Senior Deputy Director and Chief Operating Officer. Clockwise along interior (from front, center): Grovetta Gardineer, Managing Director for Examinations and Supervision Policy; Sharon L. Stark, Senior Economic and Policy Advisor; Kevin Petrasic, Managing Director of External Affairs; John E. Bowman, Deputy Director and Chief Counsel; C.K. Lee, Managing Director for Complex & International Operations.

John M. Reich, the Director of the OTS, took the oath of office in August 2005 for a five-year term. Reich, who was appointed by the President and confirmed by the Senate, also serves as a member of the Board of Directors of the Federal Deposit Insurance Corporation (FDIC) and the Federal Financial Institutions Examination Council (FFIEC). In addition, he serves as a director of NeighborWorks America, a congressionally chartered non-profit organization dedicated to the availability of housing for low- and moderate-income Americans.

The OTS has a highly skilled staff of more than 1,000 employees operating out of its headquarters in Washington, D.C., and five regional offices in Jersey City, Atlanta, Chicago, Dallas and San Francisco. The agency also has field offices within its regions that provide the OTS with a nationwide presence. Three quarters of the agency's staff works out of the regional offices.

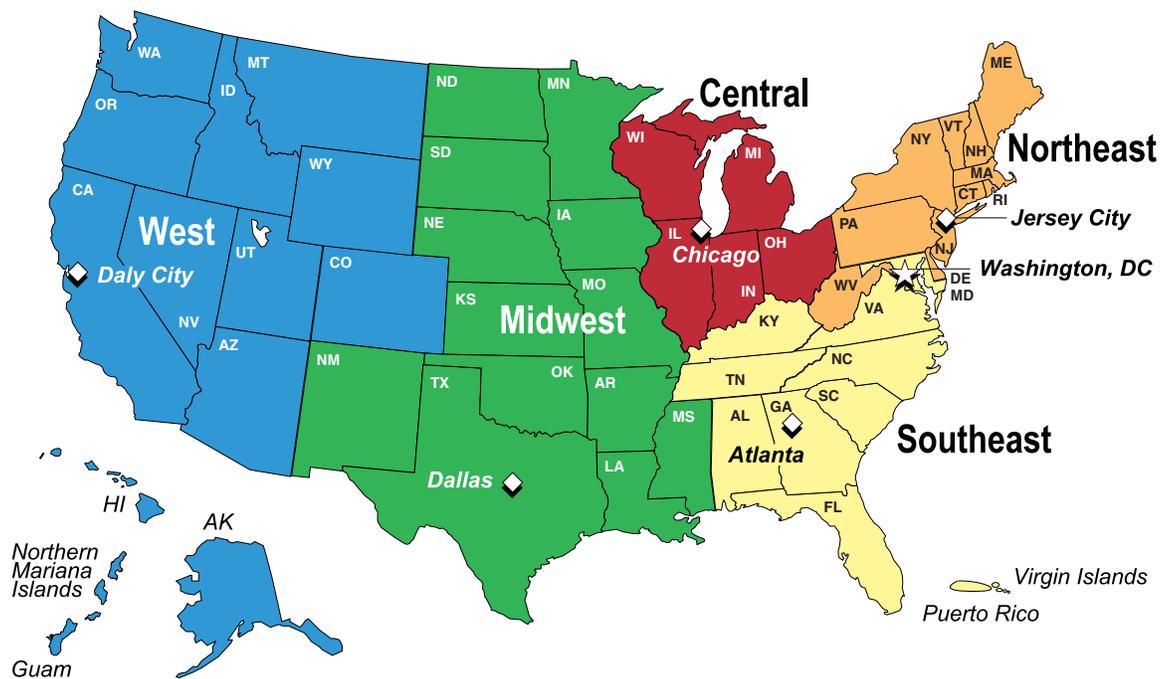
The OTS examines each savings association every 12-to-18 months to assess the institution's safety and soundness, and compliance with consumer protection laws and regulations. In addition, examiners monitor the condition of thrifts through off-site analysis of regularly submitted financial data and regular contact with thrift personnel. OTS examinations and its ongoing supervisory oversight are tailored to the risk profile of each institution.

The OTS receives no appropriations from Congress; the agency's operating budget is funded by periodic assessments to the thrift industry ■

Assets of OTS-Regulated Thrifts:
in Billions of Dollars



OTS Regional Structure



Agency History

Local townspeople pooled their money to accomplish together what they lacked the financial resources to do alone—buy their own homes.

In early 1831, three town leaders in Frankford, Pennsylvania, outside of Philadelphia, met in a local tavern to plan how local townspeople could pool their money to accomplish together what they lacked the financial resources to do alone — buy their own homes. In doing so, they established the nation’s first savings association, the Oxford Provident Building Association, modeled after mutual building societies in England. Each member paid an initial fee of \$5 per share and \$3 per month thereafter. As their savings grew, association members were able to finance their American dream of homeownership. The association provided its first mortgage in April 1831 to a local lamplighter named Comly Rich, who obtained a loan for a \$375 home that still stands on Orchard Street in Philadelphia County, Pennsylvania.

By the late 1890s, there were more than 5,000 savings associations across the country. These institutions were typically founded by people who lived in the same neighborhoods or worked in the same factories. Thrifts continued to thrive in the early 1900s and, by the 1920s, there were about 12,000 savings institutions (known by various names, including savings and loans, building and loans, thrift and loans, thrifts, savings banks, building associations, thrift associations and savings associations). Industry growth during this time was fueled largely by the influx of Americans into the cities from rural areas, driving up the demand for housing.

The end to these boom times came in the early 1930s when the Great Depression devastated the housing market and caused many savings associations to fail. The federal government soon stepped in with a series of laws to support



The Comly Rich House in Pennsylvania

homeownership. The first law established the Federal Home Loan Bank System of 12 regional Federal Home Loan Banks that provided mortgage funding for savings associations across the country. Next, Congress created the Federal Home Loan Bank Board, the predecessor agency of the OTS, to grant federal charters for savings associations and establish a regulatory system to

The industry has grown far more diverse and now includes an array of modern financial service enterprises.

promote homeownership. A third law founded the Federal Savings and Loan Insurance Corporation to insure deposits at the nation's savings and loan institutions.

Strong industry growth returned after World War II when veterans sought homes and large suburban communities took root. Savings and loan associations, or S&Ls, were the major players in the growth of the housing markets and the housing economy during this time, providing mortgages for individual homes and entire new housing developments. Demand remained strong throughout the 1950s and 1960s, when S&Ls originated two-thirds of the nation's home mortgages. At the time, most savings associations held more than 80 percent of their assets in home loans, relying on a business model that hinged on interest received from mortgages being comfortably higher than the interest paid out to depositors.

In the late 1970s, interest rates rose sharply and competition for deposits increased dramatically. Consumers seeking better deposit-rate returns had more choices among financial services providers. Also, a federal ban on adjustable-rate mortgages locked S&Ls into long-term, fixed-rate mortgage loans that produced below market-rate returns as interest rates rose.

In the early 1980s, interest rates climbed to unprecedented levels, undermining the viability of the S&L

business model. Many institutions were economically insolvent. In an effort to help the industry "grow" out of its problems, the government deregulated the lending and investment powers of savings and loans, and gave them full access to federally insured deposits to fund their new lending and investment powers. Marginally profitable and unprofitable savings and loans began to engage in aggressive and risky investment and lending strategies that compounded their existing problems. As a result, hundreds of S&Ls failed and closed in the late 1980s and early 1990s.

In 1989, Congress passed a law that dramatically restructured the banking business, moved deposit insurance for savings associations to the Federal Deposit Insurance Corporation and established the OTS to supervise, charter and regulate the thrift industry.

Today, the thrift industry has fewer institutions than during its peaks in the past, but industry assets remain close to the historic high reached in late 2006. In addition, the industry stands on a solid foundation of profitability and strong capital. Although many savings associations continue to focus mainly on home lending, the industry has grown far more diverse and now includes an array of modern financial service enterprises that operate from coast to coast and, at the holding company level, are active players internationally ■

Year in Review

Scott M. Polakoff, Senior Deputy Director and COO



Although 2007 has been a busy year, we all should have a deep sense of satisfaction that our work has made a difference for the institutions we supervise and their customers. The unprecedented turmoil in the mortgage market in 2007, and the resulting impact on our thrifts, has showcased our remarkable talent within the agency. We have more work to do, though, and 2008 will be an exciting year as we continue our hiring initiatives and expand our outreach efforts. Our goal remains to position OTS as both a premier regulatory agency and a great place to work.

Each of our 2007 initiatives generated a cascade of follow-up activities to ensure success. I would like to extend personal thanks to all of our employees for shouldering the extra workload, either by participating directly in one or more of these activities, or by assisting a colleague who was directly involved. It has been a team effort and I am extremely proud of our teammates for their tireless work and dedication.

Our hiring initiative has been a tremendous success, bringing into the agency more than 120 new employees in fiscal 2007 alone. Yet, the actual hiring has been as much a beginning as an end to the process of reshaping our workforce. Our Human Resources staff has managed mounds of hiring-

related paperwork and conducted orientation sessions. In our regions, we have formed training teams staffed by seasoned examiners and managers, who in addition to their own regular examination work, conduct on-the-job training for entry-level hires.

The expansion of our outreach activities has meant more speeches and appearances by the Director and other agency leaders, and this has required an increase in related resources. The decision to attend more banking industry conferences and events hosted by consumer groups and community organizations around the country has generated the need for OTS employees to travel extensively and engage in a wide range of outreach activities, such as attending town meetings and working in our new OTS information booth.

In the pages that follow, you will learn about our five regions, which provide an agency presence in cities, towns and rural areas across the nation, and the Washington-based operations that provide agency-wide leadership and support. You will find out more about what we do, how we do it and why innovations such as the agency's interest rate risk model keep the OTS at the forefront of federal financial services supervision ■

Scott M. Polakoff
Washington, D.C.

Northeast Region

Harborside Financial
Center Plaza Five
Suite 1600
Jersey City, NJ
07311

201-413-1000
201-413-7543 - FAX

Major offices:
Boston, Pittsburgh

Consumer Affairs:
Richard Denby
800-253-2181
201-413-7541 - FAX

Applications:
Brian Steffey
201-413-7360
201-413-7544 - FAX

Number of thrifts:
185

Total thrift assets:
\$405.8 billion

Number of employees:
173

**Number of new
employees in FYs 2006
and 2007: 50**



Michael E. Finn
Regional Director



The OTS Northeast Region headquarters lies across the Hudson River from the World Financial Center in downtown New York City. Nearby is Wall Street, home to many investment firms and other financial intermediaries prominent in the home mortgage market.

The region has supervisory responsibility for community thrifts that provide traditional banking services throughout New England, the upper Mid-Atlantic States and West Virginia. It is also home to several of the nation's largest retail savings institutions, such as Sovereign Bank, Hudson City Savings Bank and Astoria Federal Savings and Loan Association.

The region is also distinguished by firms such as ING, which have an international focus, and Wall Street companies, such as Lehman Brothers and Morgan Stanley, which have been major participants in the mortgage securitization market. These large,

complex institutions own OTS-chartered savings institutions.

OTS Northeast Region examiners travel to small towns in upstate New York and West Virginia to examine traditional community-based institutions. They also travel abroad to examine the diverse activities of thrift holding companies in countries such as India, France and the Netherlands. The complexity of these international firms and their activities requires a highly-trained, experienced staff with specialty expertise in many financial services products.

Like other OTS regions, the Northeast has a seasoned workforce with a sizable number of employees approaching retirement age. To prepare for the future, regional officials and their counterparts at OTS headquarters developed a statistical model to evaluate personnel needs in coming years. This study led to a recruitment campaign for entry-level examiners at job fairs on college campuses, and the hiring of 19 entry-level examiners in FY 2006 and another 15 in FY 2007. The OTS Northeast also hired three experienced examiners, five compliance specialists and a credit specialist. The result has been a significant increase in the region's overall examination staff.

In recent years, the region has hired information technology (IT) experts who did not have backgrounds as bank examiners, but provided valuable expertise for OTS examinations of thrifts' IT operations and third-party service providers. The region has also doubled the number of experienced examiners who attained the "certified thrift examiner" designation.

The Northeast Region has been a leader at OTS in establishing an “electronic file room” on the agency’s private, internal website. Examiners and managers use this site to share essential, non-public information, such as examination work papers.

Each OTS regional office emphasizes industry outreach to ensure clear and frequent communication with supervised institutions, and to keep industry executives and OTS officials aware of each other’s needs and concerns. The Northeast Region hosts seminars for the industry on technical topics, the state of the industry and emerging supervisory issues.

Regional managers also conduct several outreach meetings every year with chief executive officers of thrift institutions. These

meetings have no prearranged agendas and provide forums for industry executives to express their thoughts and concerns. The sessions provide valuable insights on industry trends and feedback on ways the OTS can improve its processes and reduce regulatory burden. The meetings also generate goodwill and trust that is invaluable when regulatory problems arise.

The region has a community affairs liaison, who focuses on addressing the problems and needs of minority-owned institutions. This work facilitated a partnership for a minority institution to receive management assistance from a large, neighboring non-minority thrift. Also in fiscal 2007, the region hosted a conference to explore affordable housing issues in high

cost urban areas, and cohosted meetings to discuss subprime lending problems and increases in foreclosures.

The region also has an active consumer protection program. In one case in FY 2007, the region took action based on examination findings about an institution’s subprime lending program. After an extensive investigation, the region issued a formal enforcement agreement that required reimbursement to a large number of borrowers who had paid excessive broker fees or lender fees during their mortgage loan originations.

The Northeast Region strives to be a hands-on regulator, accessible and responsive to the needs of the industry, while vigilant about protecting consumers ■



Southeast Region

1475 Peachtree
Street, N.E.
Atlanta, GA 30309

Mail:
P.O. Box 105217
Atlanta, GA
30348-5217

404-888-0771
404-888-5634 - FAX

Consumer Affairs:
404-888-8443
404-888-8599 - FAX

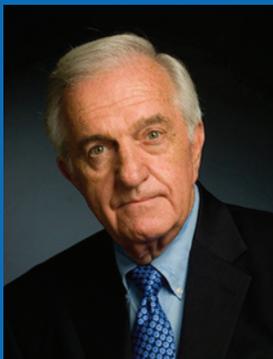
Applications:
Kathryn Haney
404-888-8466
404-888-8544 - FAX

Number of thrifts:
201

Total thrift assets:
\$289.4 billion

Number of employees:
153

**Number of new
employees in FYs 2006
and 2007:** 45



John E. Ryan
Regional Director



In the OTS Southeast Region, miles of scenic coastline, a temperate climate, generally comfortable pace of living and economic opportunity have attracted throngs of retirees, northern transplants and well-educated professionals from across the country to burgeoning economic centers such as Atlanta, Birmingham and Charlotte.

The southeastern U.S. has experienced tremendous growth in recent years with the influx of new residents and new industries. Officials in the Southeast Region strive to foster a regulatory environment that encourages continued growth and service to local communities, but ensures that the growth remains consistent with safe and sound banking principles, and compliance with consumer protections.

There is no typical profile for a savings institution in the Southeast Region. The region has developed a great diversity of savings banks by size, complexity and business strategies. Some institutions are well-known national

names; others are focused regionally or locally. Some pursue full-service retail banking; others pursue niche-oriented business lines. Many are locally oriented, community banking institutions. Some of the institutions are minority oriented, having roots in an era when minorities had few banking options, but now compete in an environment where minority customers have an array of financial services choices.

Regardless of business strategy, executives of OTS-regulated savings banks have come to appreciate that the “business oriented” regulatory approach of the OTS Southeast Region allows them to innovate, compete, grow and prosper. Each thrift in the region has a story of its own. Many successful strategies have been employed, such as specialized lending, credit card financing, affinity marketing, nationwide mortgage origination and secondary market securitized financing.

Supervising such a group of thrifts requires a staff of professionals as diverse as the industry. The OTS Southeast Region has specialists in accounting, capital markets, fair lending and other key areas. Some employees are former bankers and brokers; others are lawyers and paralegals, appraisers and IT specialists. Each one contributes to the business-like approach the region takes to regulating the industry. The “institutional memory” in the region is extensive. As a group, the region staff has literally thousands of years of experience. But regional officials also recognize the value of new faces and fresh perspectives. In fiscal years 2006 and 2007, the region hired the future of the agency — 41 new examiners, many right out of college. That initiative, which responded to the challenges of a

graying workforce that is nearing retirement, was one of the region's most significant accomplishments of the year. Training teams led by experienced veterans continue to work to develop these high-quality recruits.

Regional officials are diligent about communicating with the industry on a regular basis. They communicate with the board of directors of each thrift every time examination findings are transmitted. But they also keep the lines of communication open between exams. Every six months, the caseload manager for each institution conducts a semi-annual customer service call with the managing officer of the institution. These calls provide two-way communication — the agency solicits information from the institution and the institution may do the same. It's an excellent opportunity for the region to keep abreast of issues between examinations. During the year, regional officials also reach out to the industry by participating on regulatory panels at conferences with thrift attendees and by holding training sessions on topics of interest to thrift managers. They also

travel around the region every year to hold local town meetings for thrifts in the area. During fiscal years 2006 and 2007, the region held eight such meetings to discuss business conditions and challenges facing community institutions.

In addition to meeting the challenges of developing the staff and supervising thrifts, top officials in the region were also successful in fiscal years 2006 and 2007 in restoring the safety and soundness of several troubled thrifts through merger, acquisition, or restructuring. They also successfully counseled a number of thrifts on reducing risk by diversifying their assets.

Some of the challenges in the southeast are the result of its unique geographic characteristics. Florida, the nation's fourth most populous state, continues to grow rapidly as baby boomers retire and others are drawn there for the warm climate, natural beauty and job opportunities. Yet Florida is not as affordable as it once was. In recent years, housing prices have escalated and major hurricane damage has sent insurance costs soaring.

Owners of homes and businesses have found it difficult to find affordable hazard and windstorm insurance in coastal areas. These challenges have put pressure on the banking industry as a whole and particularly on the thrift industry, which retains a significant focus on providing home mortgages.

The insurance squeeze in Florida comes against a backdrop of high property values along the coast, a sharp increase in the average size of coastal homes and a jump in the density of waterfront living due to construction of multi-story condominiums.

Agency officials and thrift executives have been at the forefront in dealing with this issue by working with state lawmakers, state insurance commissioners and representatives of the insurance industry to forge solutions.

The U.S. Census Bureau estimates that seven of the nine states in the Southeast Region will be among the nation's 20 fastest growing states over the next two decades. As the New South continues its explosive growth, the thrift industry that serves the region will thrive as well, all under the watchful eyes and steady hands of OTS regulators ■



Central Region

1 South Wacker Dr.
Suite 2000
Chicago, IL 60606
312-917-5000
312-917-5001 - FAX

Consumer Affairs:
Handled by
Southeast Region
404-888-8443
404-888-8599 - FAX

Applications:
Don Gignac
312-917-5021
312-917-5001 - FAX

Number of thrifts:
205

Total thrift assets:
\$131.7 billion

Number of employees:
121

**Number of new
employees in FY 2007:**
14



Thomas A. Barnes
Regional Director



The OTS Central Region is the newest OTS region, recently formed from five states in the upper Midwest that all touch one or more of the Great Lakes. The region encompasses the dairy farms of rural Wisconsin, the beer brewing history of Milwaukee, the transportation hub of Chicago, the automobile industry of Michigan and the farmlands across the flatlands of southern Illinois, Indiana and Ohio. It is home to old industrial sites of former “smokestack” industries, but it is also home to a revitalized Cleveland waterfront that contains the Rock and Roll Hall of Fame and Museum.

Chicago, the “Windy City” on the southern tip of Lake Michigan, is the bustling financial center of the region and the location of the OTS regional headquarters office. Here, in a downtown skyscraper, OTS officials have been busy making additions to the staff, renewing contacts with each thrift institution in the region and

setting up the infrastructure of systems, administration and procedures to make the new operation operate smoothly.

Much of the staff has worked in Chicago for the OTS for years, but answered to regional offices elsewhere. For the new region, the challenge is to pull these seasoned employees together into a cohesive unit, build on their existing relationships with thrift executives and add needed expertise to round out the regional workforce.

The goal is to establish a region that is approachable for the industry, efficient in conducting examinations and supportive of its staff.

OTS leaders established the OTS Central Region to improve service by concentrating agency resources and senior decision-makers more closely to the regulated thrift institutions in an important part of the country. OTS officials in Chicago are closely connected to the issues of the region. They are well attuned to the economic challenges in Michigan, Ohio and Indiana, as well as the state of regional industries, such as the auto industry and the galaxy of parts suppliers and related businesses throughout the region that it supports. The Chicago office is also more convenient for visits by thrift executives in the region than OTS regional offices in Dallas, Atlanta or Jersey City, where regulation of the institutions was previously dispersed.

The region has many small community banks whose business models center on home mortgages, auto loans, commercial real estate and agriculture. The region also includes large thrifts, such as GE Money Bank,

AmTrust Bank (formerly Ohio Savings Bank), Flagstar Bank and State Farm Bank.

Regional officials strongly support the agency's move toward electronic examinations. Under this process, a thrift institution sends electronic copies of requested records to OTS for examiners to review off-site before the institution's exam date. This approach

reduces regulatory burden on the institution by minimizing the time required for examiners to be on site and by cutting back sharply on time and costs for copying paper records. The next steps in going electronic include generating each "Report of Exam" electronically and

keeping the exam-related data in a database for analysis. The OTS Central Region promises to bring better service and oversight for thrifts in its five-state area by enhancing the agency's presence, regulatory relationships and communication in the Great Lakes region ■



Midwest Region

225 E. John Carpenter
Freeway, Suite 500
Irving, TX 75062-2326

Mail:
P.O. Box 619027
Dallas/Ft. Worth, TX
75261-9027

972-277-9500
972-277-9501 - FAX

Consumer Affairs:
972-277-9564
Spanish:
972-277-9565
972-277-9563 - FAX

Applications:
Jearlene Miller
972-277-9576
972-277-9586 - FAX

Number of thrifts:
170

Total thrift assets:
\$137 billion

Number of employees:
127

**Number of new
employees in FYs 2006
and 2007: 23**



Frederick R. Casteel
Regional Director



The OTS Midwest Region cuts a wide swath through the heartland of America, sweeping down from the Canadian border across the Great Plains and through Texas and Louisiana to the Gulf of Mexico. Although the region has some large cities and large thrift institutions, there are substantial numbers of small towns, farms and ranches — and the community banks that serve them.

More than half of the thrifts in the OTS Midwest Region are in towns with populations of less than 50,000, where bank managers have strong community ties and often greet their customers by name. It is a region defined by agriculture, reasonable housing costs, a good labor supply and a generally favorable tax environment. Thrifts tend to be smaller and spread over wide expanses, making the Midwest the OTS region with the least total thrift assets. The largest OTS-regulated

institutions in the region are in cities such as San Antonio, Austin, Dallas, Wichita, Oklahoma City, Lincoln, Minneapolis and Des Moines.

Hurricane Katrina continued to be a dominant issue in the region in fiscal 2007. Louisiana and Mississippi struggled to regain their economic footing as New Orleans was reduced to about half its original size. Questions persisted about prospects for long-term growth in the Gulf Region.

In one of the region's more notable transactions during the year, Think Credit Union, with more than \$1 billion in assets, converted to the thrift charter, joining a group of three other credit unions that converted in 2006. In embracing the thrift charter, these credit unions tailored their policies and practices to thrift requirements.

The Midwest Region embodies a regulator that is firm, but also responsive and positive, handling problems without being confrontational. Although much of the region is marked by wide-open spaces, OTS regional officials strive to bridge the distances by participating regularly in outreach events with industry members and community groups. Their consistent presence at state bankers association meetings, gatherings with thrift executives and officers, and community affairs forums fosters good working relationships with the industry and helps agency officials identify and meet community needs.

The region is a leader within the OTS in spearheading the agency's electronic examinations initiative to make paper copies relics of the past.

The technique is especially well suited to the Midwest Region, where examiners travel long distances between exams. Maximizing the electronic exchange of information between thrifts and OTS examiners streamlines on-site exam work and reduces regulatory burden.

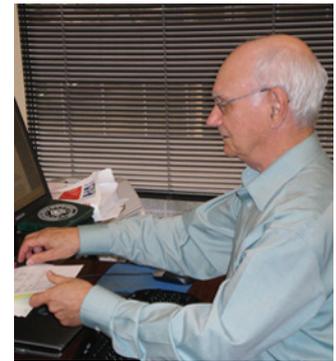
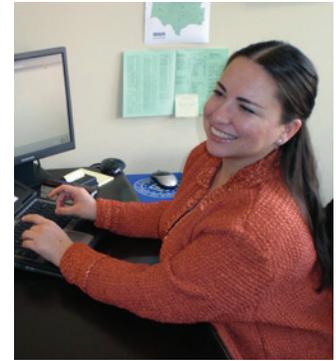
Examiners monitor each thrift institution quarterly, reviewing paperless financial information prepared by the thrift according to OTS requirements and discussing that

information by phone with thrift executives. A couple of months before an on-site exam, the examiner conducts a risk assessment based on the quarterly information and develops a pre-exam kit requesting electronic copies of specific information needed for the exam. The examiner then arrives at the thrift for the in-person examination with a strong foundation of electronic data.

Institutions have found that electronic exams are extremely beneficial

by eliminating the need to copy boxes full of paper to respond to OTS requests for information. Instead, institutions now relay spreadsheets and word processing documents electronically, saving substantial time and money.

Electronic exams have proven so effective that OTS leaders have established agency-wide goals for adoption. Through electronic exams, the OTS's heartland region has become an agency innovator ■



Danny Brasseaux, OTS Field Manager, New Orleans

If Danny Brasseaux knew then what he knows now, he might have just moved and saved himself a lot of heartache.

The lessons have come hard since Hurricane Katrina struck New Orleans in the summer of 2005 and submerged much of Brasseaux's Lakeview neighborhood under 10 feet of muddy water.

Still, Brasseaux considers himself relatively lucky. "I was a lot better off than some people," he reasoned. "At least I still had a job."

As the OTS field manager in New Orleans, Brasseaux worked for the better part of two years rebuilding his house during his personal time and helping to rebuild the area's financial economy during his professional life.

The OTS field office suffered roof damage in the storm and was closed for weeks afterward. By the time employees returned to take stock of the damage, mildew had grown rampant.

Thrift institutions in the area struggled to resume full operations because so many employees had moved away and never returned. Brasseaux and other OTS officials had to be flexible on a wide range of issues. The OTS Midwest Region rescheduled eight exams that were cancelled at the end of 2005,



sponsored conferences that were catalysts for partnerships on recovery and conducted one-year-later exams on the status of storm-affected institutions. To prepare for the storms of the future, regional officials worked with institution executives on developing disaster recovery plans and identifying alternative work sites outside flood-prone areas.

While Brasseaux spent countless hours assisting institutions and consumers in the region, he also had to contend with personal challenges created by the hurricane. His family initially stayed with relatives, then bought a small condominium as Brasseaux ripped out the ruined drywall of his flood-damaged house and hired contractors to reconstruct the first floor. In early April 2007 — more than 19 months after the storm — the Brasseaux family finally returned home.

Yet, his community — like other flood-affected areas — remains in flux. Some businesses that moved out of the area have returned, Brasseaux said, while others are taking a wait-and-see approach.

"In New Orleans, it is going to be years before we know what the long-term effect of Katrina is going to be," he said.

West Region

Pacific Plaza
2001 Junipero Serra
Boulevard, Suite 650
Daly City, CA
94014-3897

Mail:
P.O. Box 7165
San Francisco, CA
94120-7165

650 746-7000
650 746-7001 - FAX

Major offices:
Santa Ana, Seattle

Consumer Affairs:
650-746-7098

Spanish:
650-746-7097
650-746-7001- FAX

Applications:
Penny Marshall
206-829-2606
206-829-2620 - FAX

Number of thrifts:
70

Total thrift assets:
\$606.5 billion

Number of employees:
165

**Number of new
employees in FYs 2006
and 2007:** 53



Darrel W. Dochow
Regional Director



The OTS West Region is marked by diversity — the diversity of its people, especially along the Pacific Coast, and the diversity of its geography marked by its ocean coastline and rugged mountain ranges. It is also marked by the diversity of OTS-regulated thrift institutions, which range from small savings associations to the largest lending institutions in the country that are at the forefront of innovation in nationwide home mortgage lending.

The OTS West Region supervises institutions that hold about half of all thrift assets nationwide, including the top three federally regulated thrifts in asset size: Washington Mutual Bank (WAMU), World Savings Bank, FSB, and Countrywide Bank, FSB. The region expends significant resources to supervise these and other large thrift institutions. Yet the region is also responsible for small thrifts like Del Norte Federal Bank in southern Colorado, as well as other institutions

of varying sizes across the American West and as far away as Alaska, Hawaii and Guam.

The complexity of the large institutions that have pioneered new kinds of mortgages demands a regional examination staff with deep expertise in innovative products and the ability to keep pace with rapid change. Examiners frequently must find innovative approaches to supervision. Ensuring sound loan underwriting, adequate disclosures and strong risk management has been particularly challenging for OTS West Region examiners in the current competitive, aggressive financial services marketplace.

Some thrifts in the OTS West Region have been offering nontraditional mortgage products for decades, including adjustable-rate mortgages and interest-only mortgages. OTS examiners are well-versed on how institutions can manage and mitigate the risks associated with these products to keep their operations safe and sound, and provide consumers with adequate disclosure and protection.

Examiners apply this specialized knowledge to their work with smaller thrifts and growing regional institutions. Regional officials also apply this expertise to help the agency's policy-makers craft industry guidance and address emerging challenges of national significance, such as the recent interagency guidance on nontraditional mortgage products. The OTS West Region also plays a leadership role in developing and implementing new tools to improve supervision and examination processes, such as using electronic loan data to analyze risks in loan

portfolios, creating enhanced financial monitoring tools and implementing electronic tools to analyze Bank Secrecy Act risks.

Because of the enormous volume of mortgages originated by nationwide lenders in the region, the West received and responded to more than half of all complaints from consumers to the agency in FY 2007 — nearly 3,000 in all. The most common complaints involved loan payments not being properly credited, forgery, counterfeit checks, identity theft and credit card billing disputes.

The OTS West Region places a high priority on resolving problems raised by consumers' calls and letters. The region also uses information obtained through the consumer complaint process as an early warning system for agency officials. Examiners review complaint data on an institution before each exam. OTS staff members in supervisory and policy offices also review national and regional complaint data to monitor trends and issues across the industry. OTS officials

work with thrift executives to discover the causes of problems that lead to complaints and to devise strategies for addressing them.

Major developments in the region in the past two years included the conversion of the nation's largest mortgage lender — Countrywide — to a thrift. In addition, the largest OTS-regulated thrift, Washington Mutual, acquired Provident, establishing WAMU as a major credit card provider in the industry. Also, Wachovia Corporation acquired World Savings Bank, FSB and, due in part to the benefits of the thrift charter, is now using the charter as its nationwide mortgage lending platform.

As with examination teams across the agency, the regional workforce has strong bonds forged over the years during the industry's difficult times and boom times. Many of those seasoned examiners are expected to become eligible for retirement in the coming decade. Although only some of the people eligible to retire are expected to take advantage of the opportunity, the OTS is

laying the groundwork for its future workforce.

In 2007, the OTS West Region continued a major initiative to build its new workforce after being out of the hiring market for many years. The region recruited and hired 16 new examiners in 2006 and 32 in 2007. To help these new employees get up to speed, the region held orientation sessions, assigned mentors to entry-level employees, formed on-the-job training teams and arranged for their attendance at formal classroom training classes. The region also targeted experienced, high-caliber recruits with specialized expertise in capital markets, accounting, information technology and trust management. This two-pronged hiring initiative is continuing.

The diversity of the existing and new employees in the OTS West Region reflects the diversity of the communities that the region serves, with sizable Hispanic, African American and Asian components. Because of the number of large thrifts in the West, the region's managers supervise larger examination



teams than in other OTS regions, requiring examiners in charge of examinations to take an active role in managing the region's examiners.

In its examination strategy, the region focuses on establishing and maintaining relationships with its regulated institutions — built through routine communications and contacts — so that when OTS examiners uncover problems, a solid foundation exists for working cooperatively toward solutions. This proactive approach not only allows the agency to address issues promptly, but also allows OTS officials to identify and head off potential problems before they can grow. This relationship helps to ensure that examinations rarely result in major surprises. Each thrift in the West has an OTS “relationship examiner,” who is responsible for the agency’s relationship with the institution. After one year in that role, the examiner usually becomes the examiner-in-charge of the next examination of the institution.



OTS regional leaders meet regularly with the chief executive officers and boards of directors of regulated thrifts to discuss examination findings and supervisory issues, and to receive feedback on improving agency processes. Agency outreach also extends to annual town hall meetings, where industry executives and OTS officials discuss what is on their minds. The meetings provide opportunities for each group to obtain the benefit of the other’s perspective on market conditions and other issues of mutual interest.



The region also plays an active role in community affairs, meeting regularly with representatives of community groups and nonprofit organizations, as well as local, state and federal agencies. These meetings allow regional officials to stay abreast of the latest issues, so they can relay concerns to thrift institutions about matters, such as affordable housing, consumer protection, prevention of elder abuse, community development, financial literacy and fair lending. The regional office also works closely with the local offices of other federal banking agencies to develop partnerships and programs to help meet financial needs in local communities.

In the West Region, our constant themes are innovation, diversity and positive, constructive relationships with the thrift institutions we supervise and with our other constituents ■

Supervision and Consumer Protection

The core mission of the OTS is to supervise U.S. thrift institutions and their holding companies, and ensure proper consumer protection.

The agency formulates nationwide supervision policies, procedures and guidance for its examination workforce and for the thrift industry. Under the OTS examination strategy, agency examiners analyze the safety and soundness of financial institutions as they concurrently review institutions' compliance with regulations protecting consumers, countering terrorist financing and preventing money laundering. Each examination, as well as the agency's overall exam strategy, focuses on risk by devoting the greatest resources to the highest risk areas.

Supervision Operations

The agency supports its core examination functions with

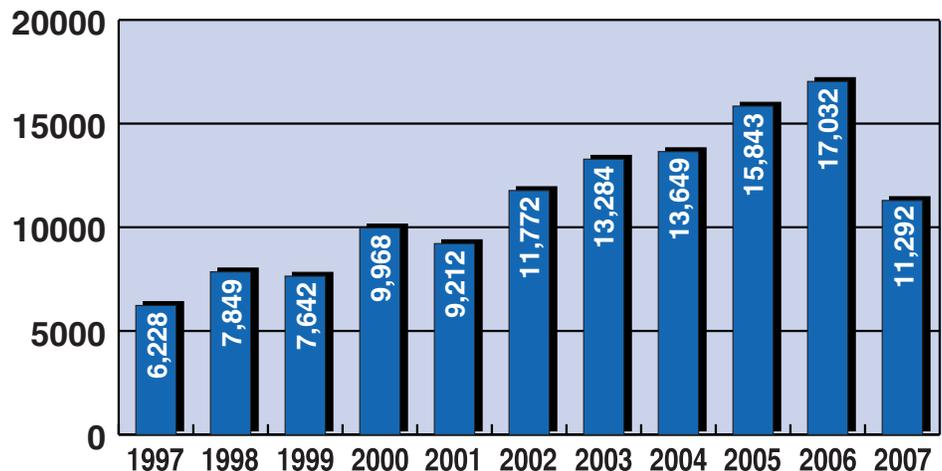
monitoring, analysis, modeling and the processing of applications and other filings.

Condition of the Thrift Industry

The thrift industry performed well during fiscal 2007 and measures of financial condition remained sound, despite challenges for home lenders. After an extended period of strength, the U.S. housing market began weakening in late 2005 and continued to weaken during 2007. This weakening has been marked by slowing home sales, declining home prices and rising mortgage delinquencies and foreclosures. These factors have put pressure on recent thrift earnings and asset quality.

Despite these pressures, earnings for the year were positive and capital levels remained strong. The industry's equity-to-assets ratio was a near-

Thrift Industry Net Income: in millions, fiscal years 1997 through 2007



record 10.16 percent and 99 percent of all thrifts exceeded the regulatory standard to qualify as “well-capitalized.” Three thrifts were “undercapitalized” as of September 30, 2007. One thrift institution failed in September 2007, the first thrift failure since 2004. Net income for the year was down from the record levels reached during the period of extended strength in the U.S. housing market. Increased provisions for loan losses reduced net income to \$11.3 billion for FY 2007, down from the record-high of \$17 billion in FY 2006. Return on average assets was 0.74 percent in fiscal 2007, down from 1.12 percent for fiscal 2006.

Asset quality weakened during the year, reflecting the housing market weakness. Troubled assets (loans 90 days or more past due, or in nonaccrual status, plus repossessed assets) rose to 1.19 percent at the end of FY 2007 after reaching a record low of 0.42 percent in June 2005. Like the troubled asset ratio, the ratio of net loan charge-

offs to average assets rose during FY 2007 from very low levels. Net loan charge-offs (loans or portions of loans written-off as uncollectible, offset by any recovery of loans previously charged-off) measured 0.43 percent of average assets, up from 0.22 percent in fiscal 2006.

Interest rate risk increased during the year, reflecting the rise in short-term interest rates. As of September 30, 2007, 80.1 percent of thrifts had low levels of interest rate risk, 16.4 percent had medium levels and 3.5 percent had higher levels.

OTS also focused supervisory attention in 2007 on weaknesses in compliance and on meeting Community Reinvestment Act (CRA) requirements and information technology (IT) standards. As of September 30, 2007, 93 percent of thrifts were rated 2 or better in compliance (with a rating of 1 being the best); two thrifts were rated 4 and none were rated 5. On CRA, 91.9 percent of thrifts were rated satisfactory or better, as of September 30, 2007. Eight institutions received “Needs Improvement” ratings on their CRA examinations and none were rated as being in a state of “Substantial Noncompliance.” Also, at the end of FY 2007, 93 percent of thrifts were rated satisfactory or better on IT.

Risk Modeling

The risk that thrifts face from fluctuations in interest rates is a key barometer of a force that can have a deep impact on the overall health of the industry. In 1991, OTS developed a proprietary simulation tool called the Net Portfolio Value (NPV) Model to measure and monitor the interest rate risk exposure within the thrift industry. The NPV Model uses detailed balance sheet information to estimate the market value of each savings association and then determines how that estimated market value is affected by changes in interest rates.

OTS recently completed a major enhancement to the NPV Model and began producing new reports using the *Enhanced* NPV Model. The *Enhanced* NPV Model provides a more accurate estimate of each institution’s interest rate risk profile. More importantly, it gives OTS the ability to value a much wider range of financial

Promote the very extensive benefits of the OTS thrift charter. I believe it to be the best operating charter in the banking industry.

— Letter from thrift industry executive to the OTS

instruments and the capability of producing a series of new reports that focus on areas such as net interest income, liquidity and value-at-risk. The *Enhanced NPV Model* solidifies OTS's position as an industry leader in the high quality measurement of interest rate risk.

Applications

OTS grants federal thrift charters, approves savings-and-loan holding company structures, and reviews and approves changes in banking activities for all of its regulated institutions. The table below is a summary of applications received in fiscal 2007.

Supervision Policy

OTS provides supervisory guidance for examiners, thrifts and savings and loan holding companies on lending and appraisal practices, corporate governance, accounting, information technology and emergency

preparedness. The agency also conducts a wide range of educational and outreach activities.

Lending and Appraisal Practices

■ *Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices* — Responding to concerns about the risks of institutions concentrating too much on commercial real estate lending, the guidance recommends that thrifts assess their risk exposure as soon as they develop a concentration in a single class of assets. The guidance cautions that not all types of commercial lending present the same level of risk and that

The OTS Examiners are experienced, knowledgeable, and honest. Somehow, they always manage to contribute at least one positive suggestion for improving something.
— Letter from thrift industry executive to the OTS

APPLICATIONS ACTIVITY: 2006-2007						
	Applications Filed		Approved	Fiscal 2007 Decisions		Total
	FY 2006	FY2007		Denied	Withdrawn	
Branch	259	255	248	0	0	248
Bylaw/Charter	150	136	140	0	2	142
Conditions	29	28	26	0	0	26
Control	19	19	17	0	0	17
Conversions	1	9	4	0	0	4
HC	102	127	107	0	13	120
Merger	17	15	14	0	1	15
New Institution	19	51	34	0	4	38
Oakar	35	35	35	0	0	35
Operations	658	708	677	1	24	702
Sasser	10	13	12	0	0	12
Sub Debt/MRPS	10	6	5	0	1	6
Subsidiary	55	66	57	0	10	67
Waiver	92	67	68	0	5	73
Totals	1,456	1,535	1,444	1	60	1,505

institutions should factor the differences into their analyses. The other federal banking agencies issued similar guidance. (December 2006)

- *One- to Four-Family Residential Real Estate Lending* — The revised Examination Handbook section incorporates changes related to the Interagency Guidance on Nontraditional Mortgage Products and provides more specific guidance for various types of

nontraditional lending. The handbook section highlights interagency concern over the practice of qualifying borrowers based on low “teaser” rate payments. It also provides guidance on stated-income and low-documentation loans. The handbook section warns savings associations against using investor underwriting standards that do not meet OTS standards to qualify borrowers for loans that will be sold in the secondary market. (March 2007)

- *Statement on Subprime Mortgage Lending* — OTS, together with the other banking regulators and the National Credit Union Administration, issued the subprime statement to provide guidance on the agencies’ expectations concerning sound practices in risk management and consumer protection in mortgage lending to subprime borrowers. The statement stresses the importance of responsible risk-management practices when offering loans to

subprime borrowers. The statement outlines the agencies’ expectations concerning risk management practices and consumer protection principles that institutions should follow for responsible lending to subprime borrowers. Additionally, the statement encourages institutions to work closely with their borrowers who have troubled loans that are delinquent, or likely to become so. (June 2007)

- *Mortgage Banking Activities* — The new handbook section provides in-depth guidance on all aspects of mortgage banking, including loan production, servicing, hedging and secondary market activities. It incorporates changes related to interagency guidance, accounting standards and industry practices. (July 2007)

Corporate Governance

- *Director Training Seminar* — OTS has developed a training seminar for members of the boards of directors of savings associations. Director Reich announced the seminar in a seven-minute video available on the agency’s website. In the video, he emphasized the importance of setting corporate values for bank directors, managers and other employees. The first OTS seminar will be held in November 2007 in Schaumburg, Ill.
- *Expanded Examination Cycle* — The federal banking agencies issued a final rule expanding the pool of small institutions eligible for an extended 18-month on-site examination cycle. The final rules allow well-capitalized and well-managed banks and savings

I have worked in the thrift industry since 1976 and have always felt comfortable with the OTS, finding it to be informed, fair, helpful, and necessary.

— Letter from thrift industry executive to the OTS

associations with up to \$500 million in total assets and a composite CAMELS rating of 1 or 2 to qualify for the 18-month (rather than a 12-month) cycle. Previously, only institutions with less than \$250 million in total assets could qualify. (September 2007)

Accounting

- *Interagency Policy Statement on the Allowance for Loan and Lease Losses (ALLL) and Questions and Answers on Accounting for Loan and Lease Losses* — The federal banking agencies released this policy statement to replace a 1993 version. Each regulated financial institution must ensure that controls are in place to determine ALLL consistently, in accordance with generally accepted accounting principles, the institution's policies and procedures, and supervisory guidance. (December 2006)
- *Notice of Proposed Rulemaking on simplified rules on subordinated debt and mandatorily redeemable preferred stock* — The proposal would align the rules more closely with those of other federal bank regulatory agencies, reduce regulatory burden and provide more flexibility for savings associations. (January 2007)

Information Technology and Emergency Preparedness

Education and outreach programs are important for communicating OTS policies. In the past year, OTS has conducted IT examiner training sessions and participated in interagency conferences, meetings

and seminars. Highlights of these activities in fiscal 2007 include:

- *FFIEC IT Symposium* — The symposium is a forum for senior examiners from the five member agencies of the Federal Financial Institutions Examination Council (FFIEC) to interact with representatives from the financial industry, government officials and other subject matter experts to explore current topics on information technology. The 2007 Symposium, led by OTS, examined the topic of remote deposit capture. It resulted in draft guidance and a work program for examiners and financial institutions. Work continues on the guidance, which is expected to be issued in the second quarter of FY 2008.
- *Outreach activities* — OTS activities during the year included the following: annual meeting of the international Information Technology Supervisors Group; Spring meeting of the National Foundation for Credit Counseling; American Conference Institute's National Forum; Webinar for BankInfoSecurity.com; Practical Privacy Seminar by the International Association of Privacy Professionals; Minority Depository Institutions Interagency National Conference; and seminars and conferences by BITS and The Santa Fe Group.

The examiners are uniquely qualified through many years of experience in dealing with our issues... They understand our business model.

— Letter from thrift industry executive to the OTS

Compliance and Consumer Protection

OTS has centralized its compliance and consumer protection function at agency headquarters in Washington, D.C. The agency issues policies and guidance on the development, implementation and evaluation of compliance programs for OTS examiners and the thrift industry.

Compliance Policy Guidance

I was frustrated and didn't know where to turn and I received wonderful help from you and your department.

— Letter from consumer to the OTS

■ *Illustrations of Consumer Information for Nontraditional Mortgage Products* — The illustrations were issued to help financial institutions comply with provisions of the Interagency Guidance on Nontraditional Mortgage Products. The final interagency guidance directs financial institutions to provide clear and balanced information to help consumers make informed choices. (June 2007)

■ *Proposed Illustrations of Consumer Information for Subprime Mortgage Lending* — The interagency Notice of Proposed Rulemaking seeks comments on the illustrations that would assist institutions in providing consumer information, as discussed in the federal banking agencies' Statement on Subprime Mortgage Lending. (August 2007)

■ *Telephone Consumer Protection Act (TCPA) Examination Procedures* — Provides examiners with procedures for examining

institutions for compliance with the TCPA. (July 2007)

■ *Consumer Credit Extended to Service Members and Dependents* — The advisory to the thrift industry provides information about a final rule published by the Department of Defense on August 30, 2007, on providing consumer credit to service members and their families. (September 2007)

■ *Unfair or Deceptive Acts or Practices* — The Advance Notice of Proposed Rulemaking seeks public comment on approaches OTS might consider in reviewing its regulations on unfair or deceptive acts or practices in the thrift industry. (August 2007)

■ *Model Privacy Notice* — The Notice of Proposed Rulemaking seeks comment on a model privacy form that financial institutions may use for their privacy notices to consumers. (March 2007)

Combating Terrorist Financing and Money Laundering

OTS works to abate money laundering and terrorist financing, together with the other federal banking agencies, the Conference of State Bank Supervisors, the Financial Crimes Enforcement Network (FinCEN) and the Office of Foreign Assets Control (OFAC). This cooperative approach helps ensure examination consistency and uniform guidance for financial institutions.

■ *Interagency Statement on Enforcement of Bank Secrecy Act (BSA)/Anti-Money Laundering (AML) Requirements* — The

statement provides guidance and insight into the considerations that form the basis of enforcement decisions on BSA matters. (July 2007)

- *Bank Secrecy Act/Anti-Money Laundering Manual* — Through the FFIEC, the federal banking agencies along with OFAC and FinCEN issued a revised manual. The BSA/AML Examination Manual and related enforcement guidance were designed to foster consistency and transparency regarding the BSA examination process. (August 2007)

- *Advanced BSA/AML Specialists Conference* — OTS, in conjunction with the other federal banking agencies, developed the conference for our most seasoned BSA experts to address emerging risks regarding money laundering and terrorist financing. The pilot conference was held in August 2007.

OTS is committed to effective examination for compliance with the USA PATRIOT Act, BSA requirements and AML guidance. In FY 2007, OTS conducted 507 comprehensive examinations and cited BSA-related violations in 62 institutions. Although most violations were technical and were remedied during the examination process with no further action, others resulted in the initiation of 21 enforcement actions.

Community Reinvestment Act

In 2007, the OTS worked to align its Community Reinvestment Act (CRA) regulations with those of the other federal banking agencies.

- *Community Reinvestment Act Interagency Uniformity* — The final rule revised four areas of the regulation to reestablish alignment between OTS rules and those of the other federal banking agencies. The revisions promote consistency, facilitate objective evaluations of CRA performance for all banks and thrifts, and reinforce CRA objectives for savings associations to meet the credit needs of the communities they serve. (March 2007)

Consumer Protection

Ensuring adherence to consumer protection laws is one of the primary responsibilities of the OTS. The agency meets that responsibility through a robust examination program that assesses compliance with more than 30 federal consumer protection statutes, regulations and other requirements, including the Truth in Lending Act, the Truth in Savings Act, the Real Estate Settlement Procedures Act, privacy laws and other consumer protection laws.

OTS and other federal banking regulators use data provided by banks and thrift institutions under the Home Mortgage Disclosure Act (HMDA) in examining institutions for signs of discrimination or violations of fair lending laws. The review and analysis of this information is an important factor in determining whether financial institutions are meeting the needs of their communities and

I was thrilled to say the least when I received the letter stating I would be refunded the money... You are the type of person that restores my faith in the goodness of humanity.

— Letter from consumer to the OTS

complying with anti-discrimination provisions of federal laws and regulations. OTS examiners evaluate thrifts in light of the data, paying particular attention to institutions with an incidence of higher-priced lending to particular racial or ethnic groups. Although the HMDA data do not include all information needed for determining the fairness of loan pricing, OTS examiners evaluate HMDA data in conjunction with other data as they use the agency's

examination procedures to develop an accurate picture of each institution's fair lending compliance.

Consumer and Community Affairs

The OTS assists consumers and responds to their questions and complaints related to thrift institutions. During FY 2007, the OTS received more than 5,600 consumer complaints (plus another 10,300 consumer inquiries that did not lead to formal complaints) and resolved

more than 94 percent of the complaints within 60 days. Even when evidence showed no regulatory violations by the institution, OTS Consumer Affairs managers frequently encouraged thrifts to take voluntary action to satisfy consumers in the interest of preserving good customer relationships and enhancing the reputation of thrifts as responsive financial service providers.

Consumer complaint information is used by examiners to help identify

potential problem areas for review during on-site examinations and is an important consideration when assessing an institution's overall compliance management program. The information also helps OTS identify and monitor emerging consumer protection issues and spotlights areas where financial education materials may be helpful for consumers, or outreach and education may be helpful for the industry.

Through its Community Affairs program, OTS helps the thrift industry meet the needs of the communities it serves. OTS officials recognize the importance of financial education for consumers. In October 2006, OTS and the other federal banking agencies issued a publication to help consumers make informed choices regarding nontraditional mortgage loans. The booklet entitled, "Interest-Only Mortgage Payments and Payment-Option ARMs — Are They for You?" features a glossary of lending terms, a mortgage shopping worksheet and a list of additional information sources.

OTS officials also worked with the Federal Reserve Board to develop and release the "Consumer Handbook on Adjustable Rate Mortgages," also known as the CHARM brochure. Issued in December 2006, the brochure explains the features and risks of adjustable rate mortgage loans, such as the potential for payment shock and the possibility of the amount that a borrower owes on a loan actually rising over time. The brochure also includes discussions about "interest-only" and "payment-option" mortgages, a mortgage shopping worksheet to help consumers compare features of different products and a glossary to

I know you probably think it's just doing your job, but not everyone does their job... Thanks to you for doing your job in such an efficient and timely manner.

— Letter from consumer to the OTS

help them understand some of the terminology. Creditors are required to give consumers a copy of the CHARM booklet with each application for any nontraditional mortgage with a variable rate.

The Community Affairs program also developed a brochure to help consumers understand gift cards entitled, "Thrift Gift — Consumer Fact Sheet on Buying, Giving and Using Gift Cards." Another OTS brochure advised thrift customers on how to resolve complaints. In August 2007, OTS reinitiated its flagship Community Affairs publication, the "Community Liaison." The Summer 2007 issue focused on home ownership and home preservation.

Minority Owned Institutions Program

The OTS's Minority Owned Institutions (MOI) program provides technical assistance and other support to promote and preserve minority-owned thrift institutions, many of which primarily serve minority communities and lower-income neighborhoods. At the close fiscal 2007, OTS supervised 22 minority-owned institutions holding approximately \$9 billion in assets. Examples of technical support OTS provides include helping MOIs find qualified board members and key personnel, and analyzing business plans and operations to provide input and direction.

OTS initiated several enhancements to its MOI program during FY 2007, including the following:

- Launching an updated section of the agency website specifically for MOIs that features resources and other information.

- Developing a survey to assess how the agency could further strengthen the MOI program.
- Participating in trade association conferences, interagency forums, roundtables and conferences that raised awareness of the MOI program.
- Continuing outreach through the agency's regional community affairs liaisons.

Complex & International Organizations

The responsibility for supervising financial conglomerates, international affairs and international technical assistance is centralized at agency headquarters in Washington, D.C.

Supervising Conglomerates

OTS holding companies are players in a global financial services marketplace, operating in more than 100 countries. Several global financial conglomerates own OTS-chartered thrifts, including General Electric, AIG, American Express, Ameriprise Financial, Merrill Lynch, Morgan Stanley and Lehman Brothers. At the end of the fiscal 2007, OTS supervised 470 holding company enterprises with approximately \$8.5 trillion in consolidated total assets. These enterprises owned 436 thrift institutions with total assets of \$1.3

It is reassuring to know that one can depend on our federal government and people such as yourself in those rare instances when the system fails the individual.

— Letter from consumer to the OTS

trillion, or almost 82 percent of total thrift industry assets.

OTS has a program for supervising large and complex financial institutions. A highly experienced staff of examiners and specialists execute the program, which implements a risk-focused supervisory approach that combines on-site examination work, routine communication and off-site planning, monitoring and analysis into a single ongoing supervisory process.

OTS coordinates with other U.S. and international regulators to develop a comprehensive view of each firm's consolidated risk profile and financial performance. Such cooperation is essential as OTS holding companies continue to expand their international exposure.

International Affairs

OTS supports international collaboration and promotes effective and efficient supervision across borders and across sectors of the global financial marketplace. In its role as home supervisor to internationally active conglomerates, OTS sponsors an annual "supervisors college" and invites banking, securities and insurance supervisors from Europe, Asia and the United States to discuss common concerns related to group supervision. As a host supervisor, OTS seeks to coordinate its efforts with the activities of foreign home supervisors on both conglomerate supervision and on supervision related to the Basel II capital regime.

OTS fostered international supervisory communications during the year as agency officials visited supervisors in

Australia, Brazil, China, the European Union, France, Germany, India, Japan, the Netherlands, Sweden and the United Kingdom to discuss consolidated supervision, money laundering, Basel II and other regulatory issues. In two cases, OTS holding company examiners participated with host country supervisors in the examination of foreign affiliate entities. The agency also hosted supervisors from China, Egypt, the European Union, Japan, Morocco, South Africa, Taiwan and Vietnam to discuss the thrift industry and the U.S. supervisory structure. In addition, OTS meets with foreign industry associations to explain U.S. regulatory policy and the thrift charter.

To formalize cooperation on supervisory matters, OTS forges information-sharing agreements and cooperation agreements with foreign supervisors. OTS completed five such agreements during fiscal 2007, bringing the total number of these agreements to 13.

During the year, OTS participated in the European Union's review of the supervisory equivalency of the United States. In previous years, OTS was designated the equivalent consolidated supervisor for GE Capital Services, Ltd., AIG Inc. and Ameriprise Financial Group, ensuring that supervision of the global activities of these firms occurs with minimal regulatory overlap.

OTS is a full member of the Basel Committee on Banking Supervision, made up of banking supervisory authorities from more than a dozen nations to encourage cooperation on banking supervisory matters and to propose broad supervisory standards

and guidance for the worldwide financial services industry. As one of the four federal bank regulatory agencies in the U.S., OTS has equal representation on the committee with the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation.

OTS participates on the committee's working groups and is a contributing member on the Accord Implementation Group, the Policy Development Group and the Accounting Task Force. OTS also participated in a 2007 meeting of the G10 Central Bank Governors and the heads of bank supervision.

During the year, OTS and the other federal banking agencies completed work toward adopting a new risk-based capital adequacy framework to implement the advanced approaches of the Basel II Accord. The framework requires some — and permits other — qualifying banking organizations to use an internal ratings-based approach to calculate credit-risk capital requirements and to use advanced measurement approaches to calculate operational-risk capital requirements. OTS and the other federal banking agencies also began

developing a Notice of Proposed Rulemaking to implement a U.S. version of the Basel II standardized approach. That effort follows review of comments on Basel 1A, an earlier proposal aimed at providing a risk-sensitive method for assessing capital adequacy for institutions that will not apply the more complex Basel II rules. The final rule for the advanced approaches and the proposal for the standardized approach are planned for publication in the Federal Register in fiscal 2008.

OTS maintains an active presence in international supervisory groups and industry organizations. OTS serves on two Joint Forum working groups that deal with issues common to the banking, securities and insurance sectors, including regulation of financial conglomerates. Because of the significant number of major insurance firms that hold thrift charters, OTS is an observer in the International Association of Insurance Supervisors and monitors international insurance issues. OTS is also a member of the Association of Bank Supervisors of the Americas, which fosters cooperation among supervisors throughout the North American and South American continents ■

Legal Affairs

The OTS fields a high-quality legal team that plays a wide-ranging role in fulfilling the mission of the agency and serving the industry that OTS regulates.

The team:

- Drafts legal opinions that define permissible thrift powers and activities, and corporate structures.
- Directs an enforcement program that includes taking action against inappropriate conduct by thrifts or their employees.
- Helps to draft proposed legislation and write resulting regulations.
- Provides guidance on applications for new thrift charters and for new activities under existing charters.
- Litigates cases involving the OTS up to the U.S. Circuit Court of Appeals.
- Oversees attorneys in OTS regional offices who provide day-to-day counsel to examiners and thrifts.

Congressional passage in October 2006 of the "Financial Services Regulatory Relief Act" capped three years of work to reduce regulatory burden in the nation's financial services industry. Director Reich spearheaded the effort among the federal financial regulatory agencies and the OTS legal team had a central role in analyzing proposed provisions that shaped the final bill.

The OTS strongly supports the mutual form of thrift ownership, in which shareholders rather than holders of publicly traded stock own the institution. Mutuals tend to be small, community-oriented institutions that

concentrate on the financial needs of their communities without pressure from stockholders for higher returns.

However, converting a thrift from mutual to stock ownership allows institutions to raise capital to operate their businesses. Billions of dollars have flowed into the thrift industry through such conversions. The OTS legal team is heavily involved in ensuring the integrity of the conversion process and preventing abuses.

The OTS legal team completed regulatory projects of significance for the industry, including final rules on:

- Management Official Interlocks;
- Subordinated Debt Securities and Mandatorily Redeemable Preferred Stock;
- Community Reinvestment Act — Interagency Uniformity;
- Stock Benefit Plans in Mutual-to-Stock Conversions and Mutual Holding Company Structures; and
- Expanded Examination Cycle for Certain Small Institutions.

OTS also issued the following proposed and interim rules: Risk Based Capital Guidelines; Capital Adequacy Guidelines; Capital Maintenance; Domestic Capital Modifications; Optional Charter Provisions in Mutual Holding Company Structures; Model Privacy Form Under the Gramm-Leach-Bliley Act; Permissible Activities of Savings and Loan Holding Companies; Personal Transactions in Securities; and Prohibited Service at Savings and Loan Holding Companies ■

Employees

OTS employees are the agency's primary resources for meeting strategic objectives. Sustaining and developing these employees requires competitive compensation, strategic and innovative training, and a supportive work environment. OTS strives to maintain a workforce that is professional in regulating the thrift industry and is informed and responsive in dealing with the public.

Recruitment

Recruitment is a high priority for the agency. Under Director Reich, OTS has put a premium on building its workforce. OTS added more than 120 new employees during FY 2007 alone. These staff additions included 72 new employees in the mission critical occupation of examiner — 48 at the entry level. In light of the agency's aging workforce, bringing on board new examiners and other employees is critical to the vitality of OTS.

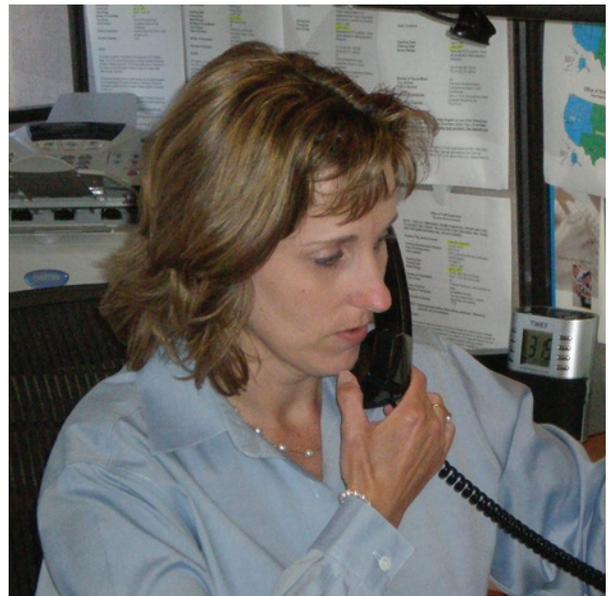
OTS officials participated in 23 job fairs at colleges and universities during the year, seeking college graduates with degrees in finance, accounting, economics, or business to become entry-level examiners. OTS also participated in eight diversity career fairs to attract a diverse and talented pool of workers for mid-level examiner positions and examination-related specialty fields.

Compensation, Benefits and Recognition

OTS officials realize that achieving strategic goals depends on attracting and retaining a motivated and skilled workforce. OTS offers its staff a compensation package that includes unique agency benefits in addition to the government-wide programs provided through the Office of Personnel Management. In FY 2007, OTS subsidized the employee-paid federal health benefit premium, provided employees with contributions toward their flexible spending accounts and offered free private group life insurance.

To demonstrate appreciation for employee achievements and career service milestones, OTS initiated a Length of Service program to recognize employees who exemplify success through consistency and steadfastness through the years. OTS also celebrates employees who exhibit exceptional skills and abilities in their performance as they advance the agency's goals and objectives. The Director's Award for Excellence is presented to selected employees for their outstanding service during the year.

Headquarters Employees





Training

To bring new entry-level examiners into the examination workforce, OTS operates a wide-ranging training program that includes classroom instruction and on-the-job training.

With the hiring of so many new Assistant Examiners in fiscal years 2006 and 2007, OTS held a New Thrift Regulator School in August 2006 and plans to conduct a session for the FY 2007 new employees in November 2007. OTS continues professional development for new examiners by offering classes in compliance, loan analysis and real estate appraisal review. These courses make up the initial set of core training programs for new examiners.

To achieve full accreditation, examiners must undergo training, pass proficiency tests and receive on-the-job instruction to gain expertise about safety and soundness and compliance. They must also serve as Examiner-In-Charge during at least two comprehensive examinations before gaining accreditation.

To cultivate the next generation of agency leaders, OTS offers courses on management and leadership for senior-level employees.

Security and Emergency Management

In 2007, OTS increased its commitment to security and emergency preparedness by establishing a Security and Emergency Management office. OTS hired experts to review OTS plans, implement new practices for employees and create a more robust security program to counter existing and emerging threats. OTS is developing an emergency preparedness program to include an Employee Emergency Handbook, Occupant Emergency Plan and Emergency Site Relocation Activation Plan.

During the fiscal year, OTS analyzed its Continuity of Operations Plan (COOP) and developed recommendations for improving COOP readiness. The agency also strengthened its relationship with Treasury's Office of Emergency Preparedness for support during a crisis. OTS participated in the annual Treasury Communication Test of secured and unsecured communications using e-mail, telephones and facsimile devices.

These improvements allow for OTS to continue uninterrupted service to its regulated institutions and employees in the event of a disaster ■

Public Affairs

The OTS has a multi-faceted public affairs program that takes a coordinated approach to strong and effective two-way communication with the thrift industry, the news media, Congress, trade associations, consumer groups, community organizations and the public.

Since taking the helm of the agency in 2005, Director Reich has worked to make the thrift charter and the OTS more visible, particularly at industry conferences and conventions. The Director has led by example by expanding his schedule for speeches and other appearances.

In the fall of 2006, the OTS unveiled several booths for use at conventions and trade shows. Since then, agency representatives have crisscrossed the country to attend events by state banking executives, national trade associations, consumer groups and community organizations. At the events, OTS staff members discuss issues related to housing and mortgage finance, explain the distinct advantages of the thrift charter and OTS supervision, and cultivate important relationships.

The OTS booths were exhibited at 31 events during fiscal 2007, including the annual conferences of America's Community Bankers, American Bankers Association and National Bankers Association, as well as state banking conferences from Hawaii to Vermont and states in between. The OTS also displayed the booths at widely-attended meetings of the National Council of La Raza, the

Congressional Black Caucus Foundation and AARP.

On Capitol Hill, Director Reich and other agency leaders testified before Congressional committees on subjects such as nontraditional mortgages, subprime lending, predatory lending, industrial loan companies, credit card lending, consumer protection, discrimination in mortgage lending and financial institutions' handling of accounts holding Social Security benefit payments.

OTS officials also met regularly with Congressional leaders and their staffs about legislative priorities and responded to Congressional requests for information.

In December 2006, the OTS hosted a National Housing Forum that featured as speakers U.S. Treasury Secretary Henry M. Paulson, Jr., the former Chairman of the House Financial Services Committee, Michael Oxley, and current Chairman Barney Frank. The forum featured several panels of experts from the financial services industry and community groups.

Director Reich later commented that the forum reestablished the prominence of OTS as a leading participant in the national debate on housing. He noted, "The National Housing Forum is one part of OTS's overall strategy of highlighting the importance of the thrift industry both to housing and the larger domestic and international financial services markets" ■

Information Technology

The OTS strives to provide unparalleled technology services to its customers, while protecting the security and privacy of personal information and corporate data.

Our information technology professionals provide timely, high-quality business solutions to OTS employees, regulated institutions and the general public. We devise enterprise information strategies, create information systems and provide a secure and efficient information management environment.

During fiscal 2007, we focused on improving OTS business processes, particularly for examinations and records management. Our goal was to increase the efficiency, security and accessibility of information and records collected, maintained and managed by the agency.

In May 2007, we implemented the first phase of our Corporate Systems Modernization (CSM) project. This project is replacing older applications for processing agency data with Web-based systems that are more accessible and easier to maintain. CSM includes a component for the electronic storing, searching and retrieving of examination documents.

In July 2007, we deployed an Examination Planning System to help regional managers schedule teams for examinations. The system also allows examiners to view their assignments and schedule training and leave.

In September 2007, we released the Regulatory Action Data (RAD) system

that tracks enforcement activity against regulated institutions, service corporations and individuals. RAD is an essential tool for the agency's supervision and enforcement.

In other projects during the year, we created a comprehensive records tracking system, enhanced the OTS Net Portfolio Value model and supported the reestablishment of the OTS Central Region headquarters in Chicago.

Yesterday's systems will not solve today's business problems. OTS technology officials are constantly looking for new ways to deliver enhanced functionality, convenience and dependability at a better price.

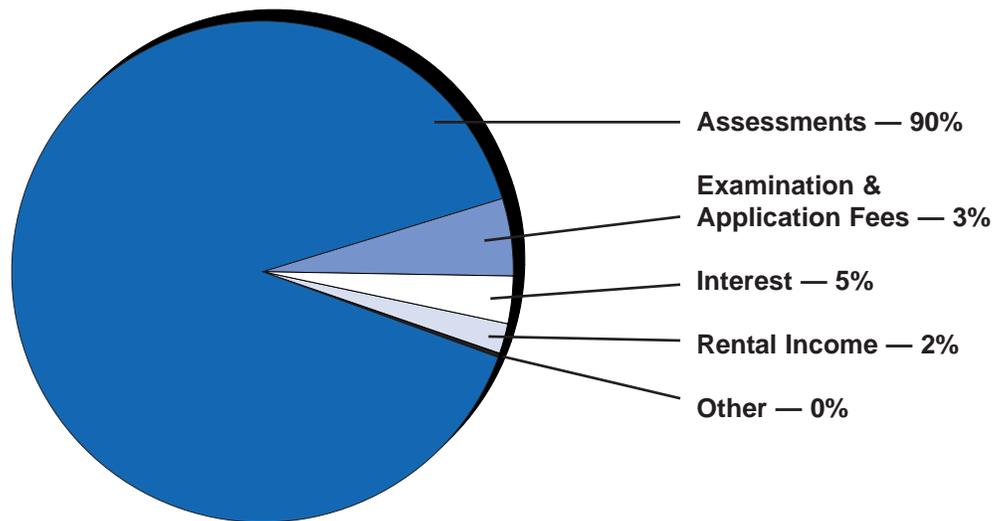
Information Security and Privacy

Ensuring the confidentiality, integrity and availability of business-sensitive and personally identifiable information is critical to performing the OTS mission. We have implemented all controls mandated by the Federal Information Security Management Act of 2002 and National Institute of Standards and Technology. OTS is also committed to protecting the privacy of our regulated institutions, the public and agency employees and has implemented recommendations by the President's Identity Theft Task Force, Section 208 of the E-Government Act of 2002, the Office of Management and Budget memoranda on privacy considerations, and the International Association of Privacy Professionals on notice, choice and consent ■

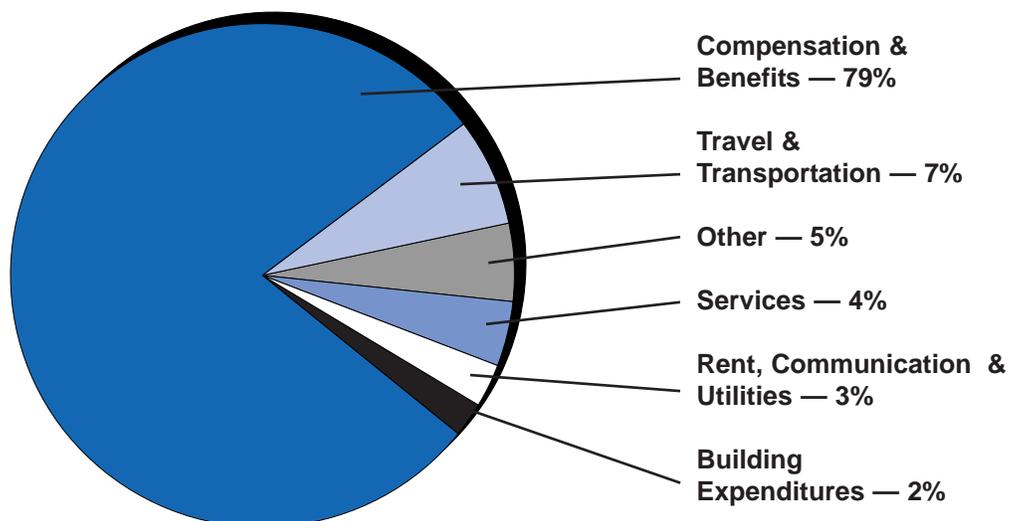
Financial Management

The OTS budget supports its supervisory mission. The agency receives no appropriated funds from Congress; income is derived principally from assessments on savings associations and their holding companies.

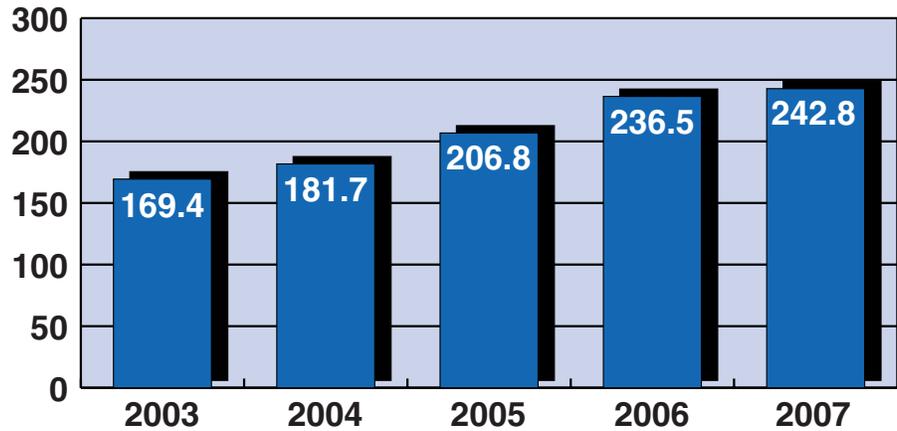
Funding Sources:



Funding Uses:

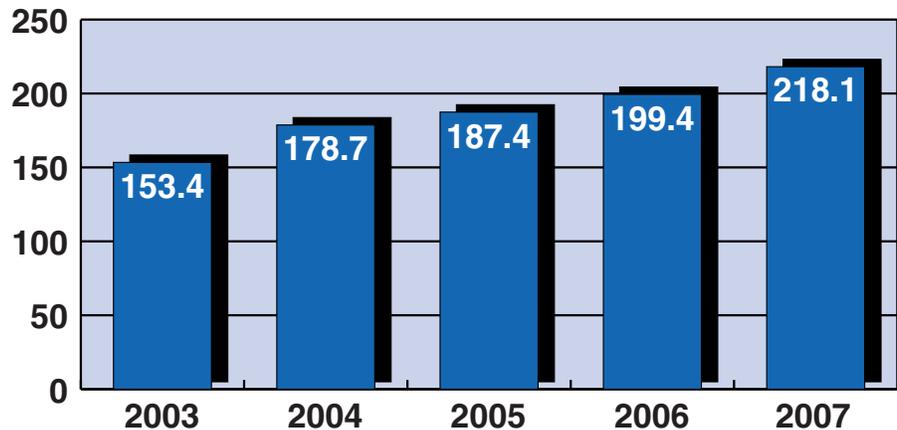


OTS Total Revenue: in millions



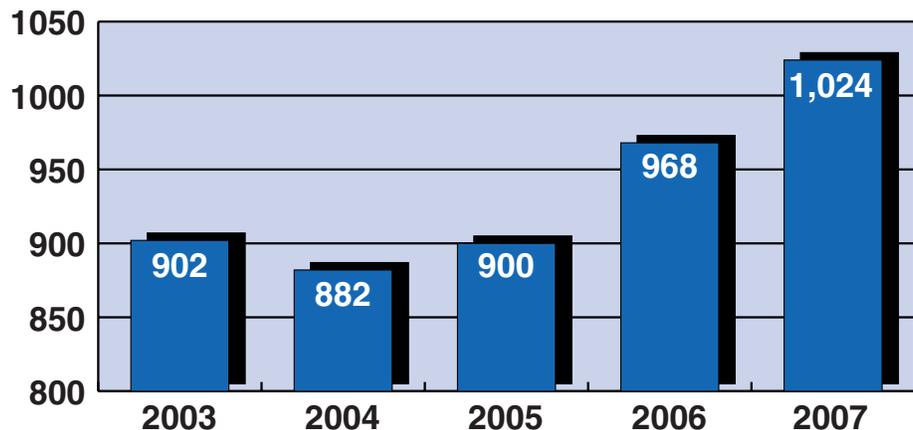
The agency continues to maintain an emphasis on sound financial management.

OTS Total Operating Expenses: in millions



OTS Staff: at the end of each fiscal year

After several years of decline in the number of agency employees, the OTS has begun an initiative to build up its workforce, especially among examiners ■



Office of Thrift Supervision Contact Information

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Headquarters phone: 202-906-6000

General inquiries: ContactOTS@ots.treas.gov

News media inquiries: 202-906-6677

Congressional inquiries: 202-906-6288

Consumer inquiries or
complaints: 800-842-6929
800-877-8339 (TTY Users)

For contact information for OTS regional offices, please refer to the regional sections in this report.

Fiscal Year
ANNUAL REPORT
2007



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