April 11, 2002

MEMORANDUM FOR: CHIEF EXECUTIVE OFFICERS

FROM: James E. Gilleran

SUBJECT: OTS Restructuring

OTS is currently implementing a restructuring plan that will achieve greater operating efficiencies, effectiveness, and consistency of regulation for the thrift industry. The changes involve three major actions: combining supervisory resources; centralizing administrative functions; and reducing staff to match workload demands. The restructuring will result in more effective development of the examination force, and greater administrative savings. It will also mean more efficient and effective oversight by working to combine our safety and soundness and compliance exams. Further, by establishing a better method of getting feedback from you, we expect to continuously improve our service to the industry.

The thrift industry is healthy and profitable, assets are growing, and in 2001 the industry had record earnings. Changes in the composition of the industry, however, have resulted in changes in the workload requirements of OTS. OTS has continued to reduce inefficiencies and cut expenses; nevertheless, the cost reductions were not always commensurate with the loss of revenues from a consolidating industry and increases in general operating expenses. Therefore, we are consolidating certain administrative functions into Washington that were previously duplicated in each region. The areas affected are human resources, budgeting, accounting and procurement.

This has involved painful job cuts to reduce layers of management and eliminate some positions, as well as reassigning staff to other offices where their skills will be better utilized. In addition, in reviewing our regulatory workforce, we find that we are able to make modest reductions in our examination staff to keep pace with industry consolidation without adversely impacting our regulatory effectiveness.

I believe that the result of our restructuring program will be a stronger, more effective regulating agency for our nation’s savings associations. Improvements in the structure of OTS and in the examination process will mean more effective oversight of the industry combined with less regulatory burden on your institutions. It will also place OTS on a sound financial footing by balancing the budget without raising assessments.

We have also realigned the agency’s regional structure. After a careful review of our operations, we determined that our supervisory obligations could be effectively met with four supervisory regions, rather than five. Therefore, supervisory responsibilities for the institutions in the states that made up the former
Central region have been reassigned among the other regions. OTS will maintain a Chicago office with a substantial supervisory presence.

The Southeast region has assumed oversight of thrifts in Michigan, Illinois, Indiana, and Kentucky. The Midwest regional office now covers thrifts in Wisconsin and Tennessee, and Ohio will be added to the Northeast region. In addition, North and South Dakota, Colorado, and New Mexico will be transferred to the Western region from the Midwest region as part of the realignment.

We are committed to vigorous and progressive oversight of your industry. We are beginning the process of cross-training our examiners to get them fully accredited in both the safety and soundness and compliance disciplines. Many of our examiners already hold dual accreditation and broad professional development in all aspects of the financial services industry will continue to be strongly encouraged. Cross-training and full accreditation will result in the cultivation of a highly skilled workforce that can adapt as your industry evolves.

While a combined safety and soundness and compliance examination is in the process of being developed, we will continue to perform our examinations in the same way as in the past. As financial products and distribution of financial services have evolved, a focused approach is required in order to yield the best regulatory result. We plan to test the combined examination approach on a limited number of institutions utilizing a pilot program. As we gain valuable experience during this pilot period, we will assess the program’s effectiveness and make adjustments accordingly. Our intent is to expand the pilot program gradually to phase in the new comprehensive examination program throughout the thrift industry. Melding the safety and soundness and the compliance examinations together will ensure that compliance issues do not compromise safety and soundness and that safety and soundness standards do not undermine compliance requirements. This will provide a clearer representation of the operations of each institution, and ensure that all regulatory objectives are consistently met. In addition to the cross-training of examiners, we will continue to maintain a cadre of compliance experts, both in the regions and in Washington, to assist examiners in handling particularly difficult, complex or technical compliance-related matters.

I wish to emphasize that I view compliance as a vital and integral aspect of an institution’s business. Poor compliance is as serious a safety and soundness issue as, for example, weak underwriting standards or weak internal controls. I expect institutions to view compliance risks in the same light as other operational risks. Later this spring we will be sending all institutions a compliance self-assessment questionnaire to help them determine their compliance on an ongoing basis and for use by our examiners for comparative purposes.

In order to ensure that OTS continues to provide the highest possible level of service and oversight to the industry, we have also updated our management survey of CEOs. This voluntary survey will be conducted annually, beginning this summer, and will replace the survey that was previously sent to you at the completion of each examination cycle. The feedback generated by the attached sample Annual Thrift Satisfaction Survey will help us to further refine the examination process, in order to maintain the strength and health of both OTS and the thrift industry.

Thank you for your continued support of the OTS and the thrift charter during this transition period. If you have any questions regarding this memo, please do not hesitate to contact me.
Annual Thrift Satisfaction Survey

1. Please tell us the things you feel OTS does well.

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2. Please tell us the things you feel OTS needs to start doing or do better.

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3. Please tell us the things you wish OTS would stop doing.

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4. Reflecting on your most recent examination(s) please tell us if:

   a) The examiners took time at the start of the examination to gain an understanding of your institution’s business strategy and operating philosophy.

   b) The examiners maintained adequate communications with management during the examination.

   c) The tone and content of the Report of Examination was consistent with the board or management exit meetings.

   d) You felt the examination was of value to your organization.

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5. If you had a reason to use or interact with OTS departments or offices other than during examinations, were you satisfied with the accuracy, timeliness and manner in which your business was handled?

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6. Other comments?

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