OFFICE OF THE COMPTROLLER OF THE CURRENCY

ANNUAL REPORT

2021

OFFICE OF THE COMPTROLLER OF THE CURRENCY

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ABOUT THIS REPORT

The fiscal year (FY) 2021 Annual Report provides Congress with an overview of the condition of the federal banking system,[1] discusses the OCC's strategic priorities and initiatives, and shares the agency's financial management and condition.

1 Unless otherwise noted, all references to 2021 in this report refer to the fiscal year ending September 30, 2021.

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ABOUT THE OCC

The Office of the Comptroller of the Currency (OCC) charters, regulates, and supervises national banks and federal savings associations (FSA) and licenses, regulates, and supervises federal branches and agencies of foreign banking organizations.[2] The agency also examines services provided by certain third parties.[3] It administers the organization and structure of the federal banking system by implementing and enforcing federal banking laws. The OCC maintains a supervisory and regulatory framework that ensures the safety and soundness of the federal banking system and encourages banks to innovate and adapt to meet the evolving financial needs of consumers, businesses, and communities nationwide. It uses a risk-based supervision process focused on evaluating banks' risk management, identifying material and emerging concerns, and requiring banks to take corrective action when warranted. Headquartered in Washington, D.C., the OCC has offices in 53 cities nationwide.

President Abraham Lincoln signed the National Currency Act on February 25, 1863, creating the OCC and the federal banking system. In June 1864, the law was revised, and in 1874 it was renamed the National Bank Act. The law remains the authority under which the OCC and national banks operate. The Home Owners' Loan Act of 1933 provides the basis for the operation and regulation of FSAs. With the passage of the International Banking Act of 1978, foreign banking organizations could opt to conduct banking operations in the United States through a federal branch or agency.

The President, with the advice and consent of the U.S. Senate, appoints the Comptroller of the Currency to head the agency for a five-year term. The Comptroller serves as a director of the Federal Deposit Insurance Corporation (FDIC) and as a member of the Financial Stability Oversight Council (FSOC) and the Federal Financial Institutions Examination Council (FFIEC).

MISSION

To ensure that national banks and federal savings associations operate in a safe and sound manner, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations.

CORE VALUES

Integrity

Expertise

Collaboration

Independence

VISION

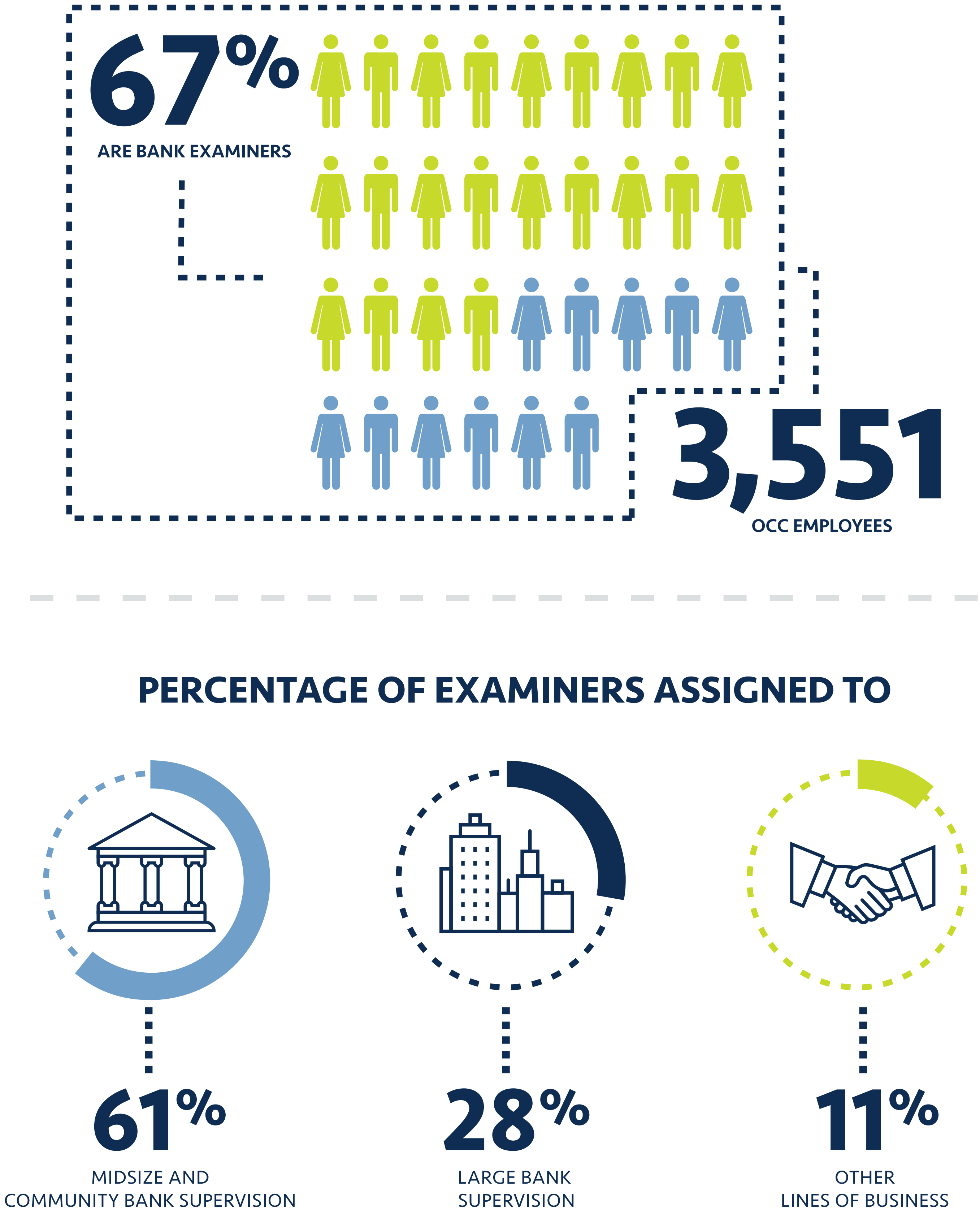
The OCC is the preeminent prudential supervisor that adds value through proactive and risk-based supervision.

The OCC is sought after as a source of knowledge and expertise, and it promotes a vibrant and diverse banking system that benefits consumers, communities, businesses, and the U.S. economy.

2 This report refers to all entities under OCC supervision collectively as "banks" unless it is necessary to distinguish among them.

3 The OCC examines certain third-party entities for the services they provide to banks and based on authorities provided by the Bank Service Company Act, 12 USC 1867(c), and the Home Owners' Loan Act, 12 USC 1464(d)(7)(D). The examinations are often coordinated with other federal banking agencies.

FIGURE 1: OCC AT A GLANCE



96%

PERCENT OF REVENUE FROM ASSESSMENTS

$1.095 BILLION

BUDGET AUTHORITY

53

CITIES WITH OFFICES

WESTERN DISTRICT SUPERVISION

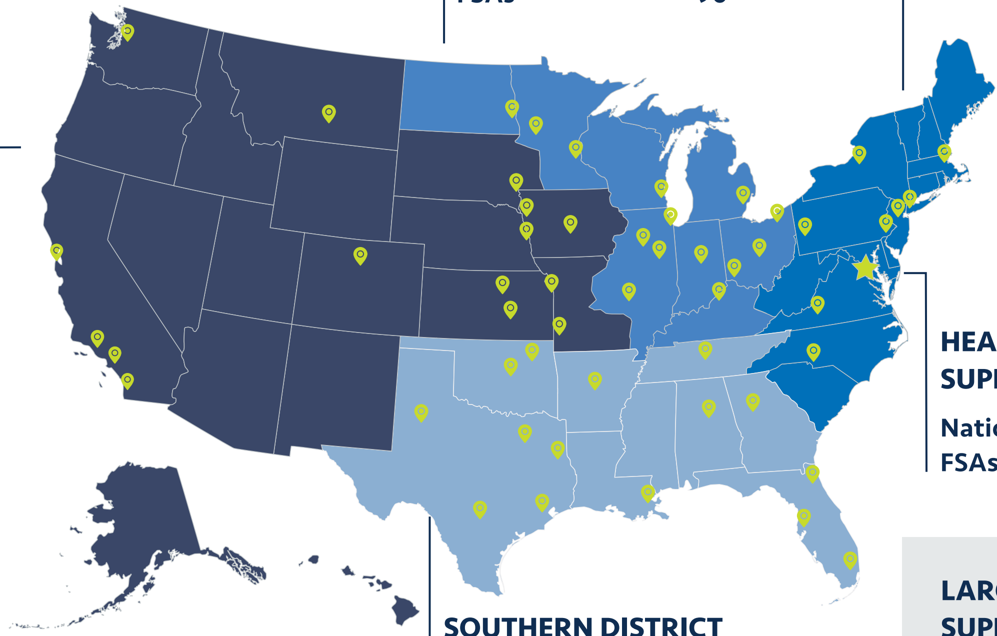
Cities	14
National banks	114
FSAs	42

CENTRAL DISTRICT SUPERVISION

Cities	15
National banks	206
FSAs	90

NORTHEASTERN DISTRICT SUPERVISION

Cities	9
National banks	90
FSAs	77



HEADQUARTERS SUPERVISED BANKS

National banks	30
FSAs	8

SOUTHERN DISTRICT SUPERVISION

Cities	15
National banks	278
FSAs	43

LARGE BANK SUPERVISION NATIONWIDE

National banks	38
FSAs	3

CITY WITH AT LEAST ONE OCC OFFICE

COMPTROLLER'S VIEWPOINT

Michael J. Hsu, Acting Comptroller of the Currency since May 10, 2021.

As Acting Comptroller of the Currency, I am honored to support all of the OCC employees who ensure the banks we supervise are safe and sound, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations. My top priorities this year have been focused on addressing threats to trust in banking, including the following:

- Guarding against complacency.
- Addressing inequality in banking.
- Acting on climate-related financial risks.
- Adapting to digitalization.

GUARDING AGAINST COMPLACENCY

While the federal banking system is strong, risks remain. Complacency exposes banks to risks, including overconfidence as the economy recovers. Many large banks have ambitious growth plans and robust merger outlooks. Many community banks face planning challenges, among others, and may feel compelled to grow to achieve economies of scale. When done prudently, growth can provide significant benefits to consumers, communities, investors, and the U.S. economy. When done in an unsafe, unsound, or unfair manner, growth can cause significant damage. One of our most important tasks as bank supervisors is to identify, assess, and act before growth becomes unsafe, unsound, or unfair.

In a dynamic economy, there is a constantly evolving set of products, practices, and clients that banks may elect to avoid, or limit exposure to, based on the banks' risk appetite.

More recently, at least some banks have begun to make different risk-based decisions. In some cases, banks have done the work necessary to develop risk management capabilities and have put in place the appropriate resources to engage prudently with products, practices, and clients that they previously avoided. In other cases, because of market demand

and a fear of missing out on attractive profit opportunities, some banks have set aside their initial risk management concerns and engaged with risky products, practices, and clients. Assessing whether banks are appropriately controlling for various risks is a task for supervision, distinct from regulation, and a critical component of guarding against complacency in the current environment.

Complacency also exposes banks to operational risks in cybersecurity. For instance, some banks have postponed investments that update and maintain their information technology (IT) systems, complacently satisfied with current IT systems. Postponing IT updates and maintenance, however, increases operational risk.

To combat this trend, the OCC has coordinated with the Board of Governors of the Federal Reserve System (Federal Reserve Board) and FDIC to conduct cybersecurity reviews, issued *Sound Practices to Strengthen Operational Resilience*, issued a notice of proposed rulemaking (NPR) on computer-security incident notification, and, in coordination with the other members of the FFIEC, issued *Authentication and Access to Financial Institution Services and Systems* guidance.[4] The computer-security incident notification NPR's primary purpose is ensuring that the federal banking agencies have timely notice of significant computer-security incidents affecting banks. We are reviewing comments on the NPR. We are also working with the industry to establish best practices in cybersecurity.

Being vigilant and guarding against complacency help ensure that the federal banking system remains safe, sound, and fair and can support a strong economic recovery.

ADDRESSING INEQUALITY IN BANKING

Reducing inequality can safeguard and rebuild trust in the banking system. The COVID-19 pandemic's disproportionate effects on vulnerable communities, households, and businesses highlight our nation's history of financial inequality. Banks can play an important role in addressing these effects.

Shortly after I took office, I initiated a review of the OCC's June 2020 Community Reinvestment Act (CRA) rule. Taking into account the pandemic's disproportionate impact on vulnerable communities, the comments on the Federal Reserve's advanced notice of proposed rulemaking, and the lessons we learned from the partial implementation of the 2020 rule, the OCC proposed rescinding the OCC's 2020 final rule and replacing it with rules adopted jointly by the OCC, Federal Reserve Board, and FDIC in 1995, as revised. The OCC issued the proposal to rescind the rule on September 8, 2021.[5] Additionally, the OCC, Federal Reserve Board, and FDIC issued a statement[6] publicly acknowledging that the agencies are committed to working together to strengthen and modernize the CRA regulations.

We must also prohibit predatory and discriminatory practices while promoting financial inclusion and increased access to credit for underserved communities. For example, if not managed and administered carefully, the negative effects of excess reliance on overdraft programs can disproportionately affect certain segments of bank consumers. The OCC has an internal working group examining bank overdraft programs. I look forward to seeing banks produce more innovative programs that can help customers navigate unexpected needs for credit.

4 See OCC Bulletins 2020-94, "Operational Risk: Sound Practices to Strengthen Operational Resilience," 2021-3, "Computer-Security Incident Notification: Notice of Proposed Rulemaking," and 2021-36, "Information Security: FFIEC Statement on Authentication and Access to Financial Institution Services and Systems."

5 See OCC Bulletin 2021-41, "Community Reinvestment Act: Proposal to Rescind and Replace Community Reinvestment Act Rule Issued in 2020."

6 See OCC News Release 2021-77, "Interagency Statement on Community Reinvestment Act Joint Agency Action."

Roundtable for Economic Access and Change

I strongly support the OCC's Roundtable for Economic Access and Change, or Project REACh, established last year.[7] The OCC designated a group of senior OCC staff to support the project. Through this staff, the OCC convened leaders in banking, civil rights, technology, and business to identify and reduce specific barriers that prevent underserved and minority communities from full, equal, and fair participation in the nation's economy.

Project REACh identified four major barriers to financial inclusion and equity for underserved populations: lack of usable credit scores, low rates of homeownership, poor access to capital for minority-owned and small businesses, and underinvestment into trusted community institutions, such as minority depository institutions (MDI). In response, the OCC, in collaboration with Project REACh partners, formed the following national workstreams.

Inclusion for Credit Invisibles

Forty-five million Americans—disproportionately poor and minority—lack a credit score and cannot get mortgages, credit cards, or other lending products. Yet many of them show financial responsibility by paying rent, utilities, and other recurring financial obligations. Project REACh participants have been evaluating models that use alternate sources of data, such as cash flow data, rent, and utility payments, to show on-time payment history and boost the measurable creditworthiness of many Americans. Some banks participating in REACh are working with technology firms on programs to help gig workers gain credit. Reassessing what data can be used to evaluate creditworthiness could help millions of customers join the financial mainstream.

REMOVING BARRIERS TO FINANCIAL INCLUSION

PROJECT REACh

Roundtable for Economic Access and Change

Revitalization of Minority Depository Institutions

The number of OCC-supervised MDIs has declined over the years. Those that remain are critical sources of credit and financial services in their communities but face challenges with accessing capital, adopting new technology, and modernizing their infrastructures. Last year—155 years after the founding of the Freedman's Bank as the nation's first MDI—REACh participant banks signed a pledge to support MDIs by providing technical assistance and investing nearly $500 million in them.[8] Most recently, the OCC convened a meeting between the National Bankers Association, which represents minority financial institutions, and three of the largest service providers to midsize and community banks to assess how the association and large service providers can build better relationships with MDIs and offer MDIs affordable, innovative services.

Increasing Home Ownership and Affordable Housing

Home ownership is one of the primary ways that families build wealth in America. Project REACh participants have focused on actions that can increase homeownership within underserved and minority communities. These include (1) improving

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7 See OCC News Releases 2020-89, "OCC Announces Project REACh to Promote Greater Access to Capital and Credit for Underserved Populations," and 2021-79, "Acting Comptroller of the Currency Testifies on Regulatory Priorities."

8 See occ.gov, "The Freedman's Savings Bank: Good Intentions Were Not Enough; a Noble Experiment Goes Awry," and OCC News Release 2020-166, "Project REACh Pledge Released to Promote Vitality of Minority Depository Institutions."

the delivery of homeownership counseling to underserved and minority communities, (2) evaluating how alternative data that show payment history for rent and other recurring payments can be used more effectively in the mortgage underwriting process, (3) expanding Native American homeownership opportunities on tribal lands, and (4) promoting strategies to increase the supply of affordable home inventory and removing barriers that prevent broader market participation and scale. One of these strategies would be to convert underutilized and surplus commercial real estate into mixed-use facilities that include residential property and provide additional home-buying opportunities.[9]

Expanding Access to Capital for Minority-Owned and Small Businesses

Project REACh participants also are evaluating models and strategies that facilitate loan participations and consortium lending to minority-owned and small businesses. The effort involves developing a consortium model whereby MDIs, community development financial institutions (CDFI), and larger banks collaborate to support agricultural businesses and emerging commercial enterprises and industries (such as clean energy and broadband) in rural and native communities.[10]

To support small businesses more generally, Project REACh participants are identifying many challenges that affect affordable credit. For example, collateral requirements for financing small businesses limit economically disadvantaged communities' access to the capital needed for entrepreneurship. In another example, many minority and women entrepreneurs, having exhausted their consumer credit capacity, need a transition to a commercial credit profile. Project REACh participants seek to help entrepreneurs meet the qualifications for small business trade lines through establishing a small business identity.

The participants are developing a comprehensive guide to provide entrepreneurs with resources to increase the chances of success. A few REACh banks have offered virtual procurement showcases for minority-owned enterprises and entrepreneurs from underserved communities to build better business relationships and provide opportunities for growth and expansion.

Area-Specific Efforts

While these four workstreams are national in scope, the path to economic inclusion is often local. Regional programs and efforts have expanded to Dallas, Detroit, Los Angeles, and Washington, D.C. Needs differ across communities and markets. That is why Project REACh includes regional programs that provide local stakeholders a direct venue to voice their needs and ideas about overcoming unique economic barriers in specific communities.

Interagency Efforts to Reduce Racial Bias in Property Appraisals

The OCC recognizes the degree to which racial discrimination and bias in property appraisals, particularly residential properties, can contribute to inequity in housing values and to a greater wealth gap between different socioeconomic communities. Although appraisers and the appraisal process are not often seen as parts of the federal banking system, there are clear intersections. Banking regulations require appraisals for certain transactions, and banks often rely on third-party appraisals in their underwriting and overall risk management practices.[11]

The OCC is an active member of an interagency effort to address this inequity in home appraisals[12] through the Property Appraisal and Valuation Equity (PAVE) Task Force. The task force was formed in

9 See OCC News Release 2021-79, "Acting Comptroller of the Currency Testifies on Regulatory Priorities."

10 Ibid.

11 See OCC News Release 2021-66, "Remarks by the Acting Comptroller of the Currency on Reducing Bias in Real Estate Appraisals."

12 See OCC News Release 2021-79, "Acting Comptroller of the Currency Testifies on Regulatory Priorities."

response to a June 1, 2021, directive from President Joe Biden and is led by the U.S. Department of Housing and Urban Development. The OCC is a principal participant in this effort to root out discrimination in the appraisal and home-buying process[13] through potential enforcement under fair housing laws, regulatory action, and development or enhancement of standards and guidance in close partnership with industry and state and local governments. The task force is consulting with civil rights organizations, advocacy groups, industry, and philanthropic entities to drive change. It also is coordinating agencies' efforts to identify factors that contribute to the persistent misevaluation of the value of assets in mortgage transactions.

OCC's Commitment to a Diverse, Inclusive Workforce

Internally, we are working to reduce employment inequality and improve our own diversity and inclusion. The OCC has engaged in comprehensive hiring, recruitment, and employee retention strategies to enhance agency diversity. We also offer a wide range of formal and informal career development opportunities to provide our employees with the leadership skills that are crucial for career development.

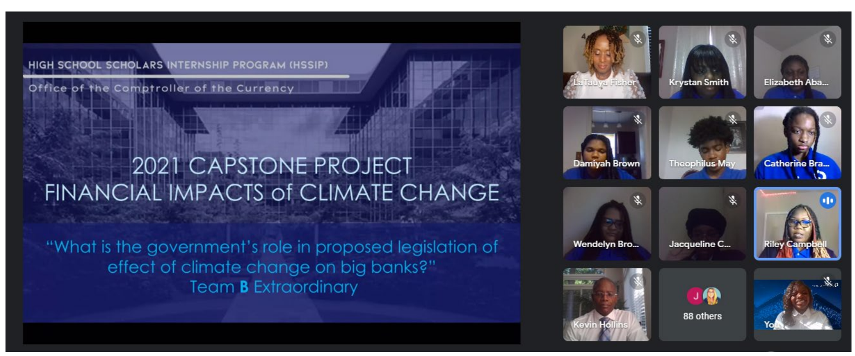
The OCC's eight employee network groups[14] each serve as a voice communicating workplace concerns and giving management input on diversity and inclusion strategies within the agency. These groups are a valuable means of attracting and retaining employees from diverse backgrounds and creating an inclusive work environment.

Such efforts have made some progress. Over the past 10 years, the OCC's total minority workforce has increased from 30 percent to 36 percent. Manager and senior-level manager positions held by minorities and women have also increased. Manager positions held by minorities and women increased from 21 percent to 28 percent, senior-level positions held by minorities increased from 20 percent to 25 percent, and senior-level positions held by women increased from 27 percent to 30 percent. Although the trend is positive, much more needs to be done.

The OCC issued its *Annual 342 Report to Congress* on March 30, 2021, outlining the actions the agency has taken relating to diversity in management, employment, and business activities, pursuant to section 34 of the Dodd–Frank Wall Street Reform and Consumer Protection Act.[15]

High School Scholars Internship Program

The OCC is committed to supporting diverse and inclusive development opportunities for the future workforce as well. For the third consecutive year, the OCC hosted its High School Scholars Internship Program (HSSIP), a six-week paid summer internship for nearly 100 minority students from public and charter high schools in Washington, D.C. The program gives students an opportunity



The High School Scholars Internship Program is a paid summer internship that lasted for six weeks between June 28, 2021, and August 6, 2021. The program is designed for students entering their senior year and for returning interns who recently graduated from high school.

13 "Memorandum on Redressing Our Nation's and the Federal Government's History of Discriminatory Housing Practices and Policies," January 26, 2021.

14 These groups are the Coalition of African-American Regulatory Employees (CARE), Generational Crossroads, the Hispanic Organization for Leadership and Advancement (HOLA), the Network of Asian Pacific Americans (NAPA), PRIDE, the Women's Network (TWN), the Veterans Employee Network (VEN), and the Differently Abled Workforce Network (DAWN).

15 "2020 Annual 342 Report to Congress" (March 30, 2021).

to explore a variety of careers at the OCC, gain an understanding of the financial services industry, and engage in enrichment activities on financial literacy and leadership fundamentals. This year, the OCC added a bridge program for selected former HSSIP participants who are now college students. The college interns completed a 10-week summer internship. The HSSIP also included high school interns who were placed at the U.S. Securities and Exchange Commission and the National Credit Union Administration. In addition to the HSSIP, the OCC has provided minority college students with paid internships for more than a decade through the agency's participation in the National Diversity Internship Program.

ACTING ON CLIMATE-RELATED FINANCIAL RISKS

Multiple government agencies are charged with addressing the environmental and social problems that climate change presents. The OCC's focus is on understanding how climate change may affect the safety and soundness, fairness, and compliance obligations of the banks we supervise.[16]

For banking regulators, the issue is straightforward: Banks are exposed to physical and transition risks presented by climate change. Physical risks refer to the harm to people and property arising from acute, climate-related disasters such as hurricanes, wildfires, floods, and heatwaves, as well as longer-term, chronic phenomena such as higher average temperatures, changes in precipitation patterns, sea level rise, and ocean acidification. Transition risks refer to stresses to certain institutions or sectors arising from the shifts in policy, consumer and business sentiment, or technologies associated with the changes necessary to limit climate change.

To tackle this crucial issue, the OCC is working with—and learning from—other financial regulators and authorities also addressing the financial impacts of climate change. The OCC participates

Acting Comptroller of the Currency **Michael Hsu** testifies before the Senate Banking, Housing, and Urban Affairs Committee on August 3, 2021, in Washington, D.C. The committee held a hearing on "Oversight of Regulators: Does our Financial System Work for Everyone?" (Photo by Alex Wong/Getty Images)

in the Basel Committee on Banking Supervision's Task Force on Climate-Related Financial Risks, which has taken stock of member initiatives on climate-related financial risks, cataloging these risks for member organizations to benefit from one another's experience. Building on this, the OCC recently joined the Network of Central Banks and Supervisors for Greening the Financial System, a group of central banks and peer supervisors from across the globe interested in addressing climate change through the sharing of best practices and the development of climate- and environment-related risk management.

We support developing and adopting effective climate-related financial risk management, especially at large banks. The OCC's staff is reviewing and evaluating the current range of practices, with an eye toward identifying best practices. In addition, we are developing high-level, climate-related risk management supervisory expectations for large

16 See OCC News Release 2021-79, "Acting Comptroller of the Currency Testifies on Regulatory Priorities."

banks and hope to issue framework guidance for comment by the end of the year.

Further, the OCC's National Risk Committee formed the Climate Risk Implementation Committee, chaired by the OCC's newly established Climate Change Risk Officer, to identify weather- and climate-related financial risks related to OCC-supervised institutions and provide recommendations to senior OCC leadership on the integration of these risks into OCC policy, supervision, and research. Having key personnel focused on our climate work should significantly expand the agency's ability to collaborate with stakeholders and to promote improvements in climate change risk management at banks.[17]

To inform our approach to the financial stability implications of climate change, the OCC is collaborating with the U.S. Department of the Treasury, other members of the FSOC, market participants, and international standard-setting bodies. Most recently, the OCC has collaborated with the other members of FSOC to draft a report[18] required by President Biden in Executive Order 14030, "Climate-Related Financial Risk."[19]

It is important to emphasize the disproportionate effect of climate change on financially vulnerable communities, potentially including lower-income communities, communities of color, and other disadvantaged or underserved communities as we address climate-related financial risk.

ADAPTING TO DIGITALIZATION

Three related trends are driving additional change to the business of banking: (1) the mass adoption of digital technology; (2) the rise of new payment capabilities; and (3) technological innovations outside the banking system, including the digital asset and decentralized finance (DeFi) space.

Today, financial technology (fintech) companies, with their payment processing, application programming interfaces, machine learning, and distributed legers, are disintermediating banks. This trend brings promise with the potential to provide a broader range of financial services to consumers who may not have full access to the traditional banking sector; however, the trend also can give rise to a large, less regulated shadow banking system. The OCC is working with other regulatory agencies to adapt to digital technology's impacts on the banking system and to consider the appropriate regulatory perimeter for new technologies, products, and services offered within and outside the regulated banking system.[20]

This year, financial regulators have sought to better understand the use of artificial intelligence when providing financial services to customers and for other business or operational purposes. We must look at appropriate governance, risk management, and controls over artificial intelligence, and any challenges in developing, adopting, and managing artificial intelligence approaches.[21]

As a step to increase interagency coordination, the OCC, FDIC, and Federal Reserve Board have established the Digital Assets Sprint Initiative to provide greater clarity and collaboration around digital assets, including cryptocurrencies. The initiative comprised a series of sprints focused on providing an active, coordinated, and timely response to questions and issues raised by rapid growth in this space. Sprints were defined as short time periods during which staff with different backgrounds and relevant subject matter expertise from the agencies conducted preliminary staff

17 See OCC News Release 2021-78, "OCC Announces Climate Change Risk Officer, Membership in NGFS."

18 The *FSOC Report on Climate-Related Financial Risk* was issued on October 21, 2021.

19 86 Fed. Reg. 27967 (May 20, 2021).

20 On November 1, 2021, the OCC, FDIC, and the President's Working Group issued a report addressing the risks of stablecoins that have the potential to be used as a means of payment and making recommendations to address those risks.

21 See OCC Bulletin 2021-17, "Artificial Intelligence: Request for Information on Financial Institutions' Use of Artificial Intelligence, Including Machine Learning."

analysis of various issues in regard to digital assets. After completing the sprints, we will consider policy needs and identify potential next steps.[22]

- The first sprint focused on developing a common taxonomy for digital assets and agreed-upon definitions to ensure a common language and understanding of the basic terms and concepts for future discussions.
- The second sprint centered on understanding use cases and risks associated with cryptocurrencies and digital assets.
- The third sprint concentrated on potential gaps in regulation and supervision and prioritizing those gaps for additional consideration.

As work continues to better define the regulatory perimeter, I have been reviewing the OCC's licensing and chartering process. I agree with those who recognize that refusing to charter fintechs may encourage growth of a shadow banking system outside the reach of federal regulators. Put simply, denying a charter will not make the problem go away, just as granting a charter will not automatically make a fintech safe, sound, and fair. Recognizing the OCC's unique authority to grant charters, we must find a way to consider how fintechs and payments platforms fit into the banking system, explore the appropriate use of regulatory tools to encourage responsible innovation, and coordinate with the FDIC, Federal Reserve Board, and the states to limit regulatory arbitrage and races to the bottom.

PANDEMIC RESPONSE

The global pandemic brought its own set of challenges to the federal banking system this year. Federal relief programs created to address economic problems brought by the pandemic increased the amount of deposits and other funds at community banks, posing unique challenges in the federal banking system. The rapid and unexpected increases in asset sizes resulted in the potential need to comply with additional regulations.

Recognizing that the asset growth was expected to be temporary and that this had the potential to impose an unexpected administrative burden, the OCC and other federal bank regulators adopted a rule in November 2020 to give affected banks until calendar year 2022 to reduce their size or prepare for new reporting and regulatory standards.[23] We have continued to expand and update the pandemic-related frequently asked questions (FAQ) begun by the agencies in 2020. To encourage investment, the agencies published new FAQs to assist banks in determining CRA consideration for activities undertaken in response to the pandemic.[24]

CONCLUSION

Before I conclude, I want to acknowledge the steady leadership that Blake Paulson provided as the Acting Comptroller from January until I began in the role in May. He enabled a smooth transition for me and has continued to provide critical support to the OCC. He now serves in the new role of Senior Deputy Comptroller for Supervision Risk and Analysis, where he continues his distinguished career at the OCC.

We remain committed to ensuring that OCC-supervised banks operate in a safe and sound manner, meet the credit needs of their communities, treat all customers fairly, and comply with applicable laws and regulations. As the nation continues to emerge from the pandemic, the OCC will do its part to ensure that the federal banking system continues to serve as a source of strength to the U.S. economy, extends opportunities to underserved populations, and meets the evolving banking needs of the consumers, businesses, and communities it serves.

Michael J. Hsu
Acting Comptroller of the Currency

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22 On November 23, 2021, the OCC, FDIC, and Federal Reserve Board issued a joint statement on the crypto-asset policy sprint initiative and next steps. See OCC Bulletin 2021-56, "Joint Statement on Crypto-Asset Policy Sprint Initiative and Next Steps."

23 See OCC News Release 2020-157, "Agencies Provide Temporary Relief to Community Banking Organizations."

24 See OCC Bulletin 2021-12, "Community Reinvestment Act: Interagency Frequently Asked Questions Related to the COVID-19 Pandemic."

CONDITION OF THE FEDERAL BANKING SYSTEM

The condition of the federal banking system remains strong despite the ongoing pandemic. Banks are weathering the COVID-19 crisis with resilience and sound credit quality and earnings, but weak loan demand and low net interest margins continue to weigh on performance. In early calendar year 2021, economic growth projections increased as significant progress was being made on vaccination administration and authorities eased public health restrictions. While the coronavirus delta variant and response are expected to contribute to slower Gross Domestic Product growth in the second half of 2021, the deceleration caused by the variant's spread is not expected to be large due to increased business activity.

Banks may face physical and transition risks related to climate change that could affect the condition of the federal banking system. The agency is focused on engaging with the industry to understand the financial risks and ensure the establishment of sound risk management governance frameworks to measure, monitor, and control risk presented by climate change. Accordingly, in common with other supervisors, the OCC increased its knowledge of the risks in this area by engaging with relevant stakeholders this year. During 2022, the OCC plans to continue information gathering through engagement with larger banks as they build capabilities and risk management processes evolve. The OCC also plans to review and implement, as appropriate, the recommendation in the FSOC Climate Report.

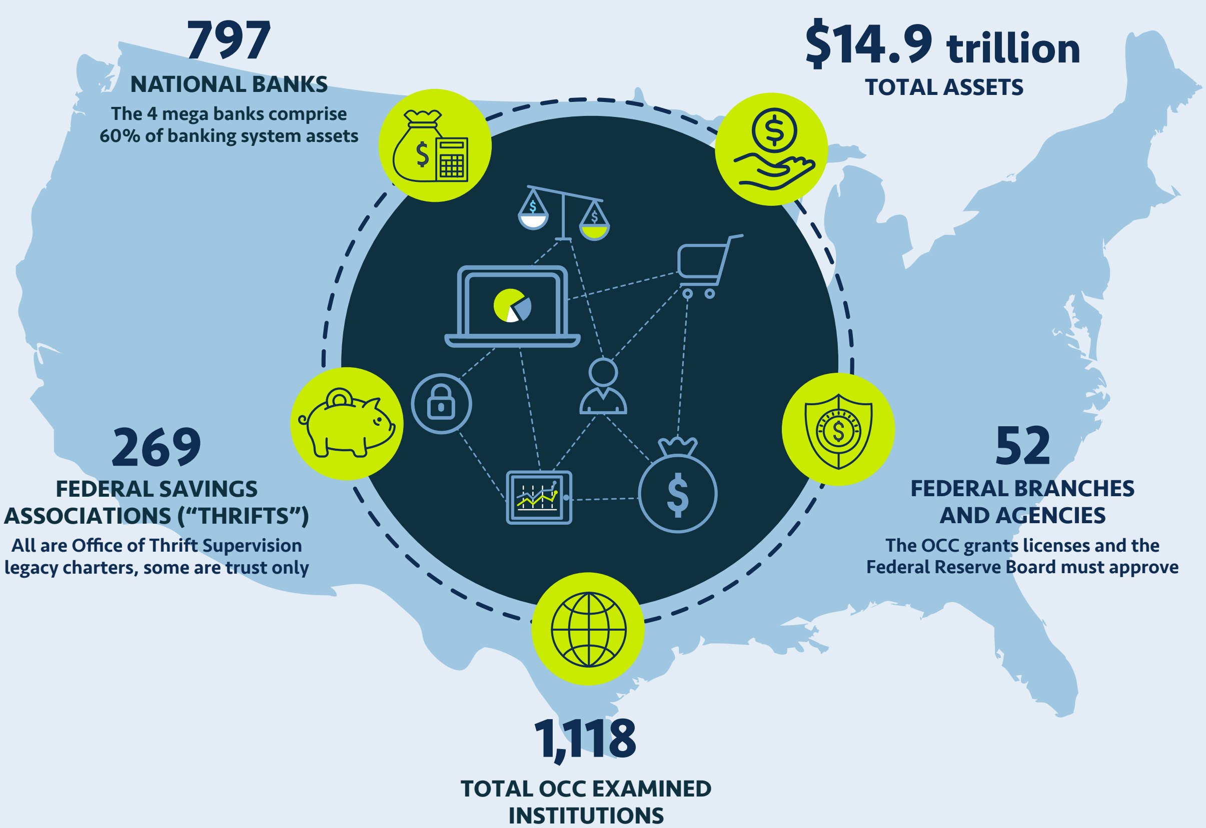
This section highlights the following factors contributing to the federal banking system's condition:

- Composition
- Capital and liquidity
- Financial performance
- Loan performance
- Risk perspective

COMPOSITION

As of September 30, 2021, the federal banking system comprises 1,118 banks operating in the United States. These banks range from small community banks[25] to the largest, most globally active U.S. banks. Of these banks, 807 have less than $1 billion in assets, while 61 have more than $10 billion. In total, the banks within the federal banking system hold $14.9 trillion of all assets of U.S. commercial banks (65 percent of the total assets held by all U.S. commercial banks). The federal banking system holds more than 70 percent of credit card balances in the country. Through these products and services, most American families have one or more relationships with an OCC-supervised bank.

FIGURE 2: FEDERAL BANKING SYSTEM AT A GLANCE



Source: OCC

Data as of September 30, 2021

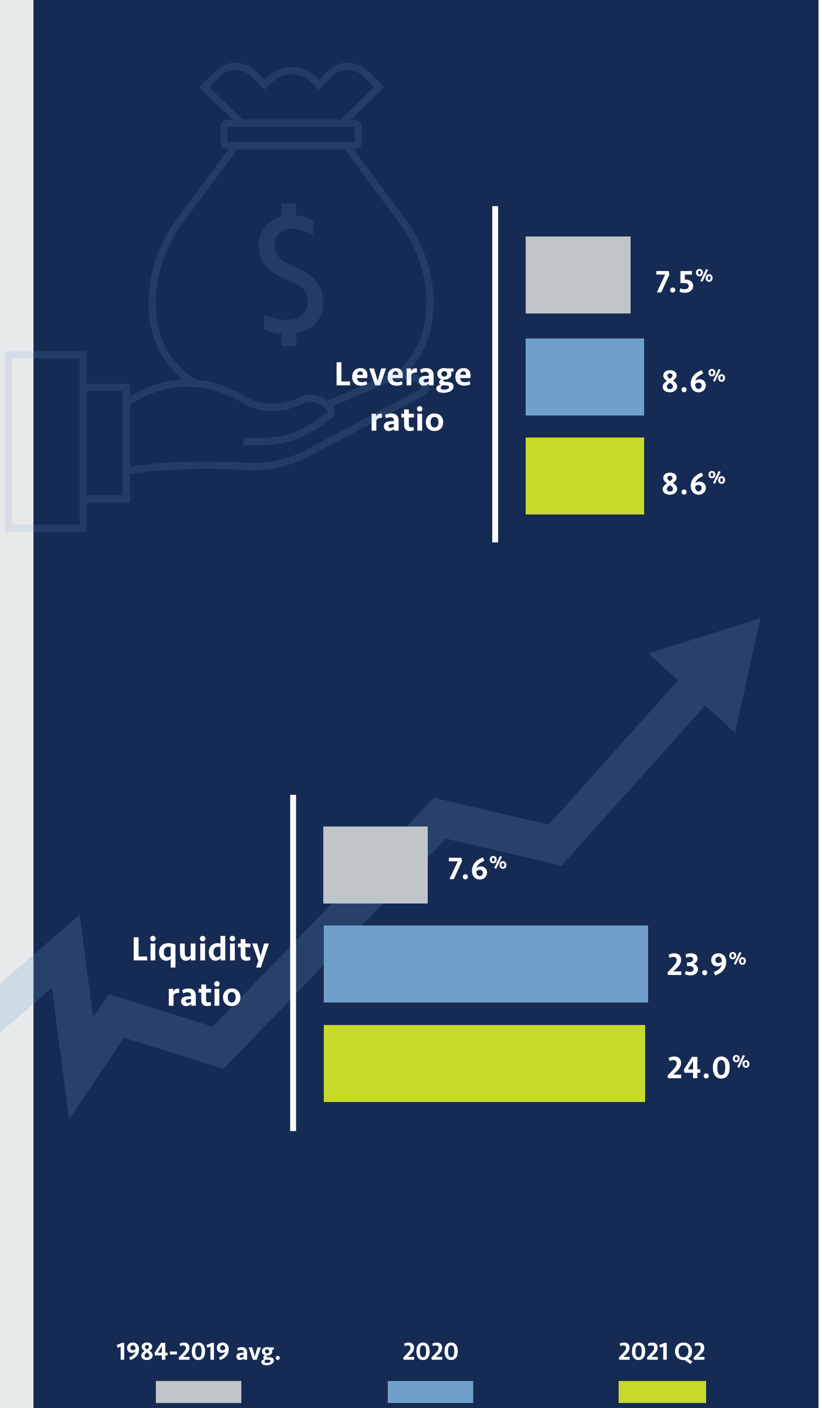
25 For the purposes of this report, community banks are national banks and FSAs with less than $1 billion in total assets and exclude trust and credit card institutions.

CAPITAL AND LIQUIDITY

Banks entered 2021 with strong levels of capital and exceptionally high levels of liquidity. As economic activity continued to recover rapidly, the federal banking system maintained strong levels of capital and liquidity as of June 2021 and used that strength to support customers and the national economy. The tier 1 leverage ratio had increased over the past decade, because of both higher capital levels and enhanced supervisory expectations. Although the leverage ratio declined from its pre-pandemic high of 9.2 percent in 2019, banks remained well capitalized at 8.6 percent of average total assets through the first half of calendar year 2021.

The federal banking system's liquidity ratio, already elevated before the pandemic, continued to climb higher, exceeding three times its historical average. Bank liquidity levels[26] were sound before the pandemic because of policy developments and an emphasis on stronger risk management since the end of the last financial crisis. Due to an influx of deposits from unprecedented fiscal and monetary stimulus, cash balances increased by over a trillion dollars since year-end 2019, raising the share of liquid assets to 24 percent as of June 2021, as shown in figure 3.

FIGURE 3: CAPITAL AND LIQUIDITY



Source: OCC

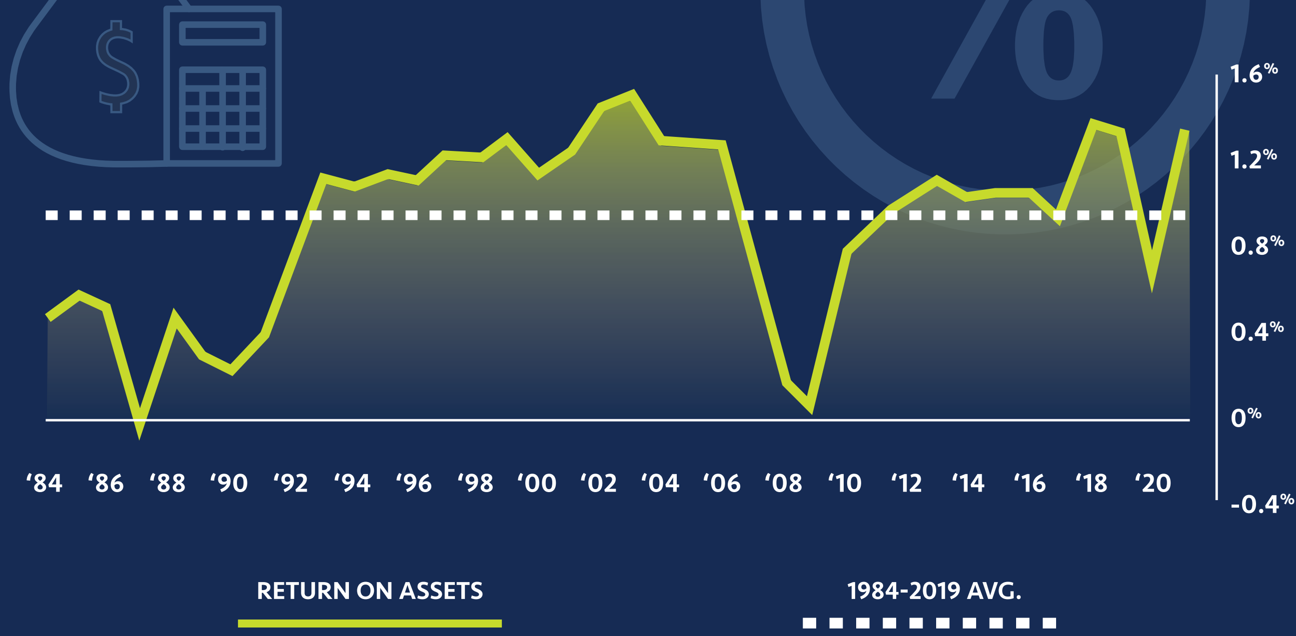
26 Liquid assets are defined as cash, net Federal Reserve funds, and U.S Treasury securities.

FINANCIAL PERFORMANCE

After dropping precipitously in 2020, system profitability rapidly rebounded, reaching its pre-pandemic level at 1.3 percent of average assets by June 2021 (see figure 4 for OCC-supervised bank profitability).

The largest banks drive system profitability, which saw a 424.5 percent increase in net income through the first half of calendar year 2021 compared to the same period in 2020, which was at the height of the pandemic. This dramatic gain was driven primarily by a release of reserves as banks responded to unrealized credit losses and the improving credit outlook. Provisions in the first half of the year were negative $23.5 billion for the federal banking system, driven by the largest banks that had also transitioned to the current expected credit loss (CECL) accounting standard in the first quarter of 2020. Although to a lesser degree, net income was up 44.6 percent for banks with less than $5 billion in total assets. Noninterest income also provided a boost to revenues for both the system and small banks, driven in large part by loan servicing fees, gains from loan sales, and other noninterest income. More negative provisions will likely continue to take place over the next few quarters; this will, however, provide only temporary relief to profitability. In the current low interest rate environment, sustained profitability will require banks to continue to manage expenses and increase lending.

FIGURE 4: BANK PROFITABILITY



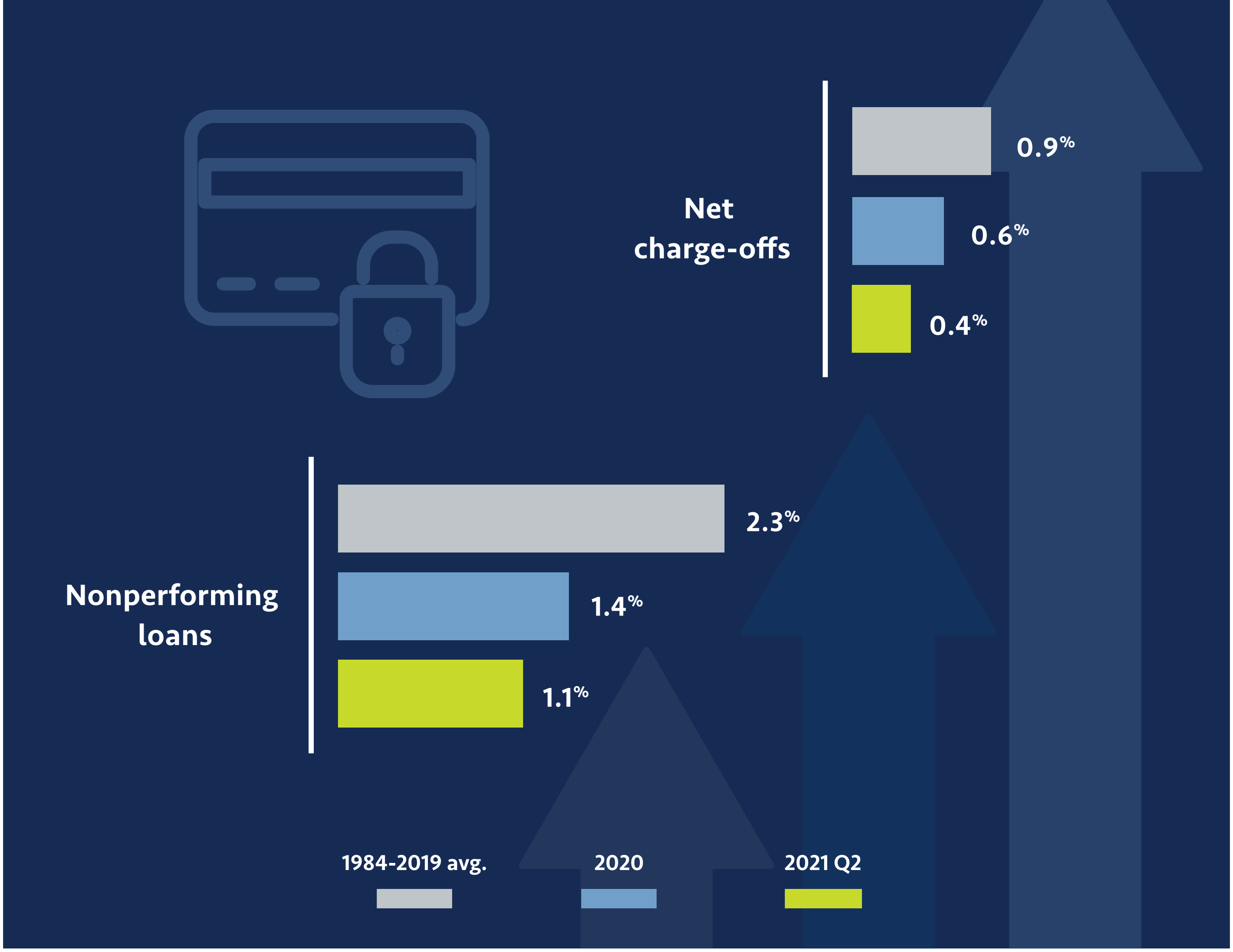
Source: OCC

LOAN PERFORMANCE

Credit quality ratios improved through the second quarter of calendar year 2021 for the federal banking system and remain significantly better than the long-term averages, as shown in figure 5. Forbearance and fiscal policy measures enacted under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, however, were still in effect through the June reporting period and likely continue to mute delinquency rates. The rate of nonperforming loans decreased 22 basis points to 1.14 percent in the first half of 2021.[27]

Net charge-offs as a share of total loans also improved to 0.37 percent in June 2021.[28] The decline in the overall charge-off rate in the first half of 2021 was driven primarily by a decline in commercial and industrial and consumer loan losses. See figure 5 for OCC-supervised banks' aggregate credit quality.

FIGURE 5: CREDIT QUALITY



Source: OCC

27 Nonperforming loans are the share of total loans that are 90 or more days past due or on nonaccrual status.

28 Net charge-offs are the share of total loan balances charged off as a loss, net of recoveries.

RISK PERSPECTIVE

Banking is a business of managing risk, and a bank's risk identification, assessment, monitoring, and management affect the condition of the federal banking system as well as the bank's individual performance. The OCC's supervision focuses on evaluating banks' ability to identify, measure, monitor, and control risks. The OCC monitors the condition of the federal banking system, identifies and assesses key supervision risks, and acts to respond to those risks. The OCC communicates its assessment of risks in the federal banking system in its *Semiannual Risk Perspective.*

These are some of the key risks facing the federal banking system, which reflect the effects of the pandemic on the federal banking system this year:

- Operational risk is elevated as banks respond to an evolving and increasingly complex operating environment and cyber risks.
- Credit risk is moderate as widespread government programs and appropriate risk management have limited the potential credit impact.
- Compliance risk is heightened, driven by regulatory changes and policy initiatives that have challenged risk management.
- Strategic risk associated with banks' management of net interest margin compression and efforts to improve earnings is elevated.

SUPERVISION

The OCC governs its bank supervision program through two key committees: the Committee on Bank Supervision (CBS) and the National Risk Committee (NRC). The CBS ensures coordination of supervisory activities, policies, and programs and consistency with the OCC's strategic plan and objectives. The NRC identifies and assesses existing and emerging risks to the industry and coordinates the agency's supervision and policy issues in addressing those risks.

This section covers the following topics:

- The OCC's supervision priorities for FY 2021
- MDIs
- Published rules, guidance, and other materials
- Licensing activities
- Enforcement actions

SUPERVISION PRIORITIES

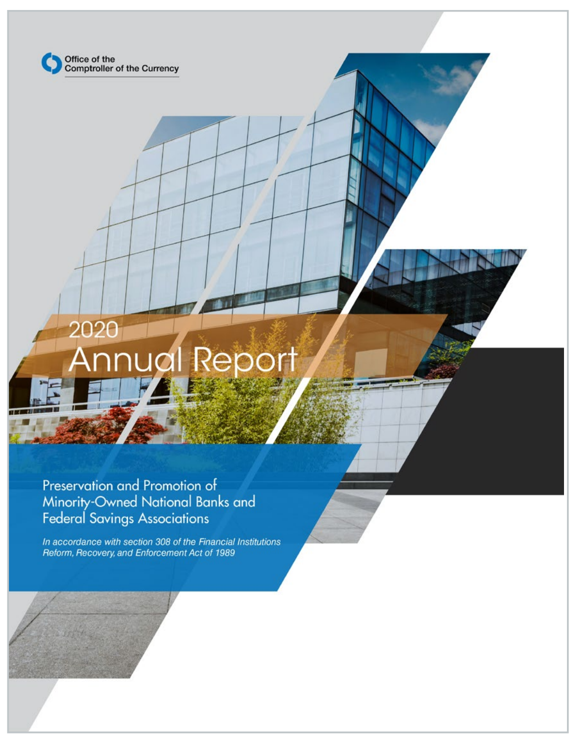
The OCC published its supervisory priorities in its *Fiscal Year 2021 Bank Supervision Operating Plan* to provide the foundation for policy initiatives and supervisory strategies, as applied to individual banks and technology services providers. The 2021 plan focused on these topics:

- Credit risk management, including commercial and residential real estate concentrations.
- Allowances for loan and lease losses and credit losses, and implementation by banks of the CECL accounting method.
- Cybersecurity and operational resilience.
- Bank Secrecy Act/anti-money laundering (BSA/AML) compliance management.
- Compliance risk management associated with pandemic-related bank activities.
- CRA and fair-lending performance.
- Impact of low interest rates and London Interbank Offered Rate (LIBOR) cessation.
- Oversight of third-party relationships.
- Management of significant operational changes.
- Payment systems products and services.

In addition to activities at individual banks, the OCC conducts horizontal supervisory initiatives for key risks to facilitate coordination and assessment of issues across the banking industry. Following up on the operating plan, the OCC provided updates about risks to the federal banking system and supervisory priorities through its *Semiannual Risk Perspective*, bulletins, news releases, the *Comptroller's Handbook*, speeches, outreach events, and discussions with bank management and boards of directors.

MINORITY DEPOSITORY INSTITUTIONS

The OCC administers an MDI program to provide technical assistance and other support to OCC-supervised MDIs, promoting and



2020 Annual Report: Preservation and Promotion of Minority-Owned National Banks and Federal Savings Associations preserving these banks consistent with requirements set forth in law. The OCC's *2020 Annual Report: Preservation and Promotion of Minority-Owned National Banks and Federal Savings Associations*, published in July 2021 in accordance with section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, addresses the condition of these institutions and the OCC's actions in support of this program. In collaboration with other agencies, the OCC hosted a virtual national conference for interagency MDIs and CDFIs in September.

PUBLISHED RULES AND GUIDANCE

The OCC published several proposed, interim, and final rules in 2021, many of them with other federal financial regulatory agencies. Many of the rules focused on regulatory capital rules, as well as interagency actions to support stability and investment during the pandemic. See table 1.

In addition to regulations, the OCC published supervisory guidance in handbooks, statements, fact sheets, FAQs, and specialized publications on topics including the following:

- Operational resilience.
- BSA/AML compliance.
- Changes in capital markets, such as the end of LIBOR.
- Community bank relationships with fintech companies.
- Responsibilities of bank directors.
- OCC measures supporting banks affected by recent natural disasters.

The OCC also issued several periodic reports providing information and analysis on trends in various financial markets and economic sectors for a wider audience, including members of Congress. Many of these reports provide analysis of risks and effects of the pandemic on the federal banking system. See table 2.

TABLE 1: RULES PUBLISHED DURING FY 2021

TOPIC	ACTION	REFERENCE
BANK MANAGEMENT AND OPERATIONS	Rule with various amendments to the OCC's regulations in 12 CFR 7, "Activities and Operations"	OCC Bulletin 2020-111
	Joint proposed rule to establish computer-security incident notification requirements for banks and their service providers	OCC Bulletin 2021-3
	Proposed rule to modify requirements applicable to real estate used as bank premises	OCC Bulletin 2021-6
	Joint proposed rule to establish enforceable guidelines implementing requirements for tax allocation agreements and principles for consolidated tax filing groups	OCC Bulletin 2021-23
CAPITAL AND LIQUIDITY	Joint rule delaying the estimated impact on regulatory capital from banks' implementation of the CECL accounting methodology	OCC Bulletin 2020-85
	Joint rule revising the definition of eligible retained income in the regulatory capital rule	OCC Bulletin 2020-87
	Joint rule implementing temporary changes to the community bank leverage ratio framework, pursuant to the CARES Act	OCC Bulletin 2020-89
	Joint rule confirming revisions to the agencies' regulatory capital and liquidity rules regarding the Money Market Liquidity Facility; the Paycheck Protection Program; and the liquidity coverage ratio	OCC Bulletin 2020-96
	Joint interim rule to temporarily adjust asset thresholds for certain banks in response to the COVID-19 pandemic	OCC Bulletin 2020-107
	Joint rule addressing regulatory capital treatment of total loss-absorbing capacity investments, to reduce systemic risks to the financial system	OCC Bulletin 2021-1
	Joint rule implementing the net stable funding ratio to strengthen the resilience of large banks	OCC Bulletin 2021-9
	Joint interim rule on the regulatory capital treatment of instruments issued under the Emergency Capital Investment Program	OCC Bulletin 2021-14
	Rule creating an exception to the withdrawal period requirement for certain collective investment funds	OCC Bulletin 2021-26
CRA	Proposed rule to determine evaluation benchmarks under the June 2020 CRA rule's general performance standards	OCC Bulletin 2020-103
	Proposed rules to rescind the June 2020 CRA rule and replace it with rules that would align more closely with those of other federal financial regulators, facilitating ongoing interagency work to modernize the CRA regulatory framework and create supervisory consistency	OCC Bulletin 2021-41
REGULATIONS AND LICENSING	Announcement that Congress disapproved a final rule, which the OCC issued in October 2020. The final rule stated a bank that makes a loan is the "true lender" if, as of the date of origination, the bank (1) is named as the lender in the loan agreement or (2) funds the loan	OCC News Release 2021-69 and OCC Bulletin 2020-92
	Rule confirming that supervisory guidance does not create binding legal obligations for the public	OCC Bulletin 2021-8
	Rule updating and clarifying licensing policies and procedures for corporate activities and transactions involving OCC-supervised banks	OCC Bulletin 2020-100

TABLE 2: GUIDANCE AND PUBLICATIONS ISSUED DURING FY 2021

TOPIC	PUBLICATION	REFERENCE
BANK MANAGEMENT AND OPERATIONS	Interagency paper on sound practices to strengthen operational resilience for certain large banks	OCC Bulletin 2020-94
	Director's Toolkit publications: revised *Director's Book: Role of Directors for National Banks and Federal Savings Associations* and new *Director's Reference Guide to Board Reports and Information*	OCC Bulletin 2020-97
	New "Architecture, Infrastructure, and Operations" booklet of the *FFIEC Information Technology Examination Handbook*	OCC Bulletin 2021-30
	FFIEC member "Statement on Authentication and Access to Financial Institution Services and Systems"	OCC Bulletin 2021-36
	New publication: *Conducting Due Diligence on Financial Technology Companies: A Guide for Community Banks*	OCC Bulletin 2021-40
	Joint proposed guidance on managing risks associated with third-party relationships	OCC Bulletin 2021-42
BSA/AML	Joint revised order granting an exemption from the requirements of the customer identification program rules implementing section 326 of the USA PATRIOT Act for certain loans	OCC Bulletin 2020-88
	Joint fact sheet providing information for banks conducting customer due diligence on charities and other nonprofit organizations	OCC Bulletin 2020-101
	Joint FAQs on suspicious activity reporting and other AML considerations	OCC Bulletin 2021-4
	Joint statement on model risk management for bank systems supporting BSA/AML compliance	OCC Bulletin 2021-19
	Notice on revised sections of the *FFIEC BSA/AML Examination Manual*. Revisions published include updates to eight sections of the manual.	OCC bulletins 2021-10 and 2021-28
	Interagency "Anti-Money Laundering and Countering the Financing of Terrorism National Priorities"	OCC Bulletin 2021-29
SPECIALIZED PERIODIC PUBLICATIONS	Quarterly reports on bank trading and derivative activities to increase awareness of size and character of trading and derivative exposures within the federal banking system	OCC news releases 2020-171, 2021-37, 2021-70, and 2021-98
	Quarterly *OCC Mortgage Metrics Report* to promote broader understanding of mortgage portfolio performance and modification activity in the federal banking system and support supervision of regulated institutions	OCC news releases 2020-172, 2021-38, and 2021-71
	Semiannual *Interest Rate Risk Statistics Report* of data gathered during examinations of OCC-supervised midsize and community banks	OCC bulletins 2020-91 and 2021-18
	Joint annual report on the Shared National Credit Program to review the performance of large loan commitments shared between regulated institutions	OCC News Release 2021-26
	Update to the *Bank Accounting Advisory Series*, which reflects accounting standards issued by the Financial Accounting Standards Board on such topics as troubled debt restructuring and credit losses	OCC Bulletin 2021-37
	Economic Snapshot series reporting data on national and regional trends	See occ.gov

TOPIC	PUBLICATION	REFERENCE
CAPITAL MARKETS	An exemption order for certain categories of qualified financial contracts entered into by foreign subsidiaries of covered banks	OCC Bulletin 2020-95
	Instructions and technical specifications for preparing and submitting quantitative measurements relating to the Volcker rule	OCC Bulletin 2020-105
	Joint statement on treatment of certain legacy swaps affected by Brexit and the swap margin rule	OCC Bulletin 2020-108
	Joint statements, FAQs, and a self-assessment tool to encourage and facilitate banks' transition away from LIBOR	OCC bulletins 2020-98, 2020-104, 2021-7, and 2021-32
CREDIT AND CONSUMER COMPLIANCE	Informative resources about • the OCC's Project REACh initiative to reduce barriers to economic inclusion • the Federal Housing Administration's 203(k) Home Rehabilitation Mortgage Insurance Program • ways to invest in opportunity zones • the Multifamily Rural Housing Finance Program	See occ.gov for various publications on these topics
	Revised joint statement on treatment of extensions of credit to certain investment funds and their portfolio investments under 12 CFR 215 and 12 CFR 363	OCC Bulletin 2020-110
	Proposed interagency questions and answers on private flood insurance	OCC Bulletin 2021-13
	Information for banks about written notifications or requests for tax equity finance transactions pursuant to 12 CFR 7.1025	OCC Bulletin 2021-15
	Notice of the issuance of the FFIEC's revised "A Guide to HMDA Reporting: Getting It Right!", including updated reporting thresholds	OCC Bulletin 2021-16
	Notice of termination of the OCC's Portfolio Stress Test Tool for Income-Producing Commercial Real Estate	OCC Bulletin 2021-21
	Host state loan-to-deposit ratios that the agencies will use to determine compliance with section 109 of the Riegle–Neal Interstate Banking and Branching Efficiency Act of 1994	OCC Bulletin 2021-25
	"Small Business Administration Lending: Risk Management Principles"	OCC Bulletin 2021-34

TOPIC	PUBLICATION	REFERENCE
CRA	Materials supporting the June 2020 CRA rule	OCC bulletins 2020-86, 2020-99, and 2021-5
	Interagency FAQs related to the COVID-19 pandemic	OCC Bulletin 2021-12
	Notice of reconsideration of the June 2020 CRA rule and nonobjection to banks' suspending some implementation measures for the rule	OCC Bulletin 2021-24
	Joint statements on CRA and other regulatory reporting requirements for banks affected by hurricanes Ida and Maria and California wildfires	OCC Bulletin 2021-27, OCC news releases 2021-88 and 2021-89
	Updated contact information for notices required by the CRA and Equal Credit Opportunity Act, and for posters under the Fair Housing Act	OCC Bulletin 2021-35
	Lending data on small business, small farm, and community development lending by certain banks, pursuant to the CRA	OCC News Release 2020-169
EXAMINATIONS AND REPORTING	New, revised, or updated *Comptroller's Handbook* booklets:	
	• "Allowances for Credit Losses"	OCC Bulletin 2021-20
	• "Concentrations of Credit"	OCC Bulletin 2020-90
	• "Credit Card Lending"	OCC Bulletin 2021-22
	• "Earnings"	OCC Bulletin 2021-44
	• "Foreword"	OCC Bulletin 2020-109
	• "Liquidity"	OCC Bulletin 2021-38
	• "Model Risk Management"	OCC Bulletin 2021-38
	• "Problem Bank Supervision"	OCC Bulletin 2021-39
	• "Regulatory Reporting"	OCC Bulletin 2021-43
	• "Servicemembers Civil Relief Act"	OCC Bulletin 2021-11
	Supplemental examination procedures to the interagency Electronic Fund Transfer Act procedures	OCC Bulletin 2021-33
REGULATIONS AND LICENSING	New *Comptroller's Licensing Manual* booklet, "Mutual to Stock Conversions"	OCC Bulletin 2020-102
	Interpretive letter regarding preemption standards and procedural requirements for certain preemption actions by the agency	OCC News Release 2020-176
	Notice adjusting maximum civil money penalties within the OCC's jurisdiction for 2021	OCC Bulletin 2021-2
	Overview of process for voluntary liquidation of a mutual federal savings association	OCC Bulletin 2021-45

LICENSING ACTIVITIES

The OCC's licensing activities ensure that banks establish and maintain corporate structures in accordance with the principles of safe and sound banking as predicated by law and regulation. The OCC's Licensing Division works with the agency's legal and supervisory departments to render independent decisions supported by a record of facts and financial, supervisory, and legal analyses. See tables 3 to 6 for a comparison of licensing activities year over year.

TABLE 3: CORPORATE APPLICATION ACTIVITY IN FISCAL YEARS 2020–2021

	2020	2021	2021 DECISIONS			
	APPLICATIONS RECEIVED		APPROVED	CONDITIONALLY APPROVED	DENIED	TOTAL
Branches	490	455	440	0	0	440
Capital/sub-debt	32	39	36	0	0	36
Change in bank control	13	7	7	0	0	7
Charters	12	8	1	5	0	6
Charter conversions*	5	13	6	5	0	11
Federal branches	2	3	2	0	0	2
Fiduciary powers	2	2	1	0	0	1
Licensing other	26	34	28	3	0	31
Mergers	36	46	43	1	0	44
Relocations	155	160	148	0	0	148
Reorganizations	26	27	19	4	0	23
Subsidiaries	15	19	19	3	0	22
Substantial change in assets	5	13	3	5	0	8
Mutual to stock conversions	0	5	0	2	0	2
TOTAL	**819**	**831**	**753**	**28**	**0**	**781**

*Conversions to an OCC-regulated bank.

TABLE 4: CHANGE IN BANK CONTROL ACT (Notices Processed With Disposition)

YEAR	RECEIVED	ACTED ON	NOT DISAPPROVED	DISAPPROVED	WITHDRAWN
2021	7	7	7	0	0
2020	13	10	10	0	4
2019	16	10	10	0	0
2018	6	6	6	0	0
2017	9	7	7	0	0

TABLE 5: LICENSING ACTIONS AND TIMELINESS FOR NATIONAL BANKS AND FSAS IN FISCAL YEARS 2020–2021

		2020			2021		
			WITHIN TARGET			WITHIN TARGET	
	TARGET TIME IN DAYS	NUMBER OF DECISIONS	NUMBER	PERCENT	NUMBER OF DECISIONS	NUMBER	PERCENT
Branches	45/60	500	499	99.80	440	439	99.77
Capital/sub-debt	15/45	41	40	97.56	36	36	100
Change in bank control	NA/120	10	10	100	7	7	100
Charters	45/120	4	2	50	6	4	66.67
Charter conversions	60/120	5	4	80	11	10	90.91
Federal branches	NA/120	3	3	100	2	2	100
Fiduciary powers	30/60	1	1	100	1	1	100
Licensing other	NA/60	22	22	100	38	32	84.21
Mergers	45/60	41	37	90.24	44	43	97.73
Relocations	30/60	155	153	98.71	148	148	100
Reorganizations	45/60	28	28	100	23	22	95.65
Subsidiaries	30/60	19	16	84.21	22	22	100
Substantial change in assets	NA/60	3	3	100	8	6	75
Mutual to stock conversions	NA/60	0	0	0	2	2	100
TOTAL		**832**	**818**	**98.32**	**788**	**774**	**98.22**

Note: Most of the decisions (98 percent in 2020 and 95 percent in 2021) were made in the district offices and large bank licensing departments under delegated authority. Decisions include approvals, conditional approvals, and denials. NA means not applicable.

Note: Certain filings qualify for "expedited review" and are subject to the shorter time frames listed. The longer time frames are for standard review of more complex applications. The target time frame may be extended if the OCC needs additional information to reach a decision or process a group of related filings as one transaction, or to permit additional time for public comment.

TABLE 6: APPLICATIONS PRESENTING CRA ISSUES DECIDED IN FISCAL YEAR 2021

BANK, CITY, STATE	APPROVAL DATE	DOCUMENT NUMBER
First National Community Bank, Chatsworth, Ga.	April 19, 2021	CRA decision no. 203
The Huntington National Bank, Columbus, Ohio	May 25, 2021	CRA decision no. 204
Nicolet National Bank, Green Bay, Wisc.	June 22, 2021	CRA decision no. 205
Guaranty Bank & Trust, National Association, Mt. Pleasant, Texas	July 8, 2021	CRA decision no. 206
Bank of America, National Association, Charlotte, N.C.	July 12, 2021	CRA decision no. 207
Bank of America, National Association, Charlotte, N.C.	July 12, 2021	CRA decision no. 208
Bank of America, National Association, Charlotte, N.C.	July 12, 2021	CRA decision no. 209
Bank of America, National Association, Charlotte, N.C.	July 12, 2021	CRA decision no. 210
Bank of America, National Association, Charlotte, N.C.	July 12, 2021	CRA decision no. 211
Bank of America, National Association, Charlotte, N.C.	July 12, 2021	CRA decision no. 212
Texas Heritage National Bank, Daingerfield, Texas	July 14, 2021	CRA decision no. 213
Bank of America, National Association, Charlotte, N.C.	July 23, 2021	CRA decision no. 214
Webster Bank, National Association, Waterbury, Conn.	August 2, 2021	CRA decision no. 215
Bank of America, National Association, Charlotte, N.C.	August 4, 2021	CRA decision no. 216
Bank of America, National Association, Charlotte, N.C.	August 4, 2021	CRA decision no. 217
Commercial Bank of Texas, National Association, Nacogdoches, Texas	August 20, 2021	CRA decision no. 218

ENFORCEMENT ACTIONS

The OCC investigates, litigates, and takes enforcement actions to address unsafe or unsound banking practices and failures in compliance, including compliance with certain consumer protection laws. When warranted, the OCC refers potential criminal acts involving bank-affiliated parties to the U.S. Department of Justice and coordinates with other federal agencies on enforcement efforts involving banks.

The number of formal enforcement actions taken against banks has generally declined since 2010, reflecting overall improvement in banks' risk management practices and economic conditions. The civil money penalties amount this fiscal year, however, was higher when compared with the last five years. Table 7 summarizes the OCC's formal enforcement actions published in 2021.

TABLE 7: OCC ENFORCEMENT ACTIONS IN FISCAL YEAR 2021

TYPE OF ENFORCEMENT ACTION	NUMBER	AMOUNT[a]
12 USC 1829 notifications	13	
Bank CMP	12	$1,056,663,306
Cease-and-desist order (bank)[b]	7	
Formal agreement (bank)	9	
Notices of charges filed	4	
Personal cease-and-desist order	4	
Personal CMP	9	$3,761,000
Prompt corrective action directive	1	
Removal/prohibition	14	
Total	73	$1,060,424,306

[a] Includes only assessed penalties through September 30, 2021, and does not include remediation to customers that the OCC may have required of the bank.

[b] Includes instances where multiple charters in a company are subject to the same enforcement action.

LEADERSHIP

Michael J. Hsu

Acting Comptroller of the Currency

Michael J. Hsu became Acting Comptroller of the Currency on May 10, 2021. As Acting Comptroller, Mr. Hsu is the administrator of the federal banking system, chief executive officer of the OCC, and a member of the OCC's Executive Committee. The Comptroller also serves as a director of the FDIC and a member of the Financial Stability Oversight Council and the FFIEC.

Before joining the OCC, Mr. Hsu served as an associate director in the Division of Supervision and Regulation at the Board of Governors of the Federal Reserve System, where he chaired the Large Institution Supervision Coordinating Committee Operating Committee. He cochaired the Federal Reserve's Systemic Risk Integration Forum, served as a member of the Basel Committee Risk and Vulnerabilities Group, and cosponsored forums promoting interagency coordination with foreign and domestic financial regulatory agencies.

His career has included serving as a financial sector expert at the International Monetary Fund, financial economist at the Treasury Department helping to establish the Troubled Assets Relief Program, and financial economist at the Securities and Exchange Commission overseeing the largest securities firms. He began his career in 2002 as a staff attorney in the Federal Reserve Board's Legal Division.

Mr. Hsu has a bachelor of arts degree from Brown University, a master of science degree in finance from the George Washington University, and a juris doctor from New York University School of Law.

Greg Coleman

Large Bank Supervision

As the Senior Deputy Comptroller for Large Bank Supervision, Greg Coleman directs nearly 800 employees who supervise the country's largest banks and is a member of the OCC's Executive Committee. He assumed these duties in January 2021.

Mr. Coleman previously served as a Deputy Comptroller for Large Bank Supervision. He has served in a variety of bank supervision roles as an examiner, policy expert, and manager at the OCC, including serving as Examiner-in-Charge of Capital One and E*TRADE. He previously served as Director within the Credit and Market Risk Division in the Office of the Chief National Bank Examiner and as the lead for the capital markets team at JPMorgan Chase. He joined the OCC in 1989 as a field examiner and became a commissioned National Bank Examiner in 1994 and cross-certified to examine federal savings associations in 2013.

Mr. Coleman is a chartered financial analyst charter holder and has a bachelor of science degree in business administration from the University of Nebraska-Lincoln.

Grovetta N. Gardineer

Bank Supervision Policy

As the Senior Deputy Comptroller for Bank Supervision Policy, Grovetta N. Gardineer directs the formulation of policies and procedures for bank supervision and examination, chairs the agency's CBS, and is a member of the OCC's Executive Committee. She oversees the units for policy related to credit risk, market risk, operational risk, and compliance risk, as well as units responsible for innovation, international banking and capital policy, accounting policy, and community affairs. She assumed this role in March 2019.

Previously at the OCC, Ms. Gardineer served as the Senior Deputy Comptroller for Compliance and Community Affairs and Deputy Comptroller for Compliance Risk. Before joining the OCC in 2010, Ms. Gardineer was the Managing Director for Corporate and International Activities and the Managing Director for Supervision Policy at the Office of Thrift Supervision (OTS).

Ms. Gardineer has a bachelor of arts degree in politics from Wake Forest University and a law degree from North Carolina Central University.

Larry L. Hattix

Enterprise Governance and Ombudsman,
and Chief Risk Officer

As the Senior Deputy Comptroller for Enterprise Governance and the agency's Ombudsman, Larry L. Hattix oversees the agency's enterprise governance function, the bank and savings association appeals program, and the Customer Assistance Group. As the Chief Risk Officer, he drives an agencywide view of risks and evaluates adherence to the agency's risk appetite statement. He assumed the duties of Chief Risk Officer in 2021. He is a member of the OCC's Executive Committee and represents the agency as a member of the International Network of Financial Services Ombudsman Schemes, which promotes effective dispute resolution, improves international coordination and cooperation, and shares best practices globally.

Mr. Hattix was the OCC Ombudsman from 2008 to 2013 and previously served as Assistant Deputy Comptroller of the Cincinnati field office. He joined the OCC in 1988 as an assistant national bank examiner and obtained his commission as a National Bank Examiner in 1994, with a specialty in consumer and CRA compliance.

Mr. Hattix has a bachelor of science degree in business administration and finance from Carroll University.

Benjamin W. McDonough

Chief Counsel

As the Senior Deputy Comptroller and Chief Counsel, Benjamin W. McDonough oversees the agency's legal and licensing activities, including legal advisory services to bank supervision and policy, enforcement, litigation, agency administrative matters, legislative initiatives, the chartering of new banks, and changes in structure and activities of existing banks. He serves on the OCC's Executive Committee and provides advice and counsel to the Comptroller of the Currency and senior OCC executives. He assumed this role in June 2021.

Before joining the OCC, Mr. McDonough served as Associate General Counsel in the Legal Division at the Board of Governors of the Federal Reserve System. He began his career at the FDIC as an honors attorney.

Mr. McDonough has a bachelor of arts degree from the University of Michigan and a joint juris doctor and master of public policy degree from the University of Michigan Law School and Gerald R. Ford School of Public Policy.

Sydney Menefee

Midsize and Community Bank Supervision

As the Senior Deputy Comptroller for Midsize and Community Bank Supervision (MCBS), Sydney Menefee is responsible for supervising nearly 1,100 banks, as well as nearly 1,400 OCC employees. She is a member of the OCC's Executive Committee and the CBS. She assumed this role in June 2020.

Ms. Menefee joined the OCC in 2009 as a professional accounting fellow and served in various roles in the Office of the Chief Accountant and MCBS before becoming Deputy Comptroller and Chief Accountant in August 2018. She was commissioned as a National Bank Examiner in March 2016. Before joining the OCC, Ms. Menefee worked in public accounting and for a banking organization.

Ms. Menefee graduated from the University of Texas at Austin with a bachelor's degree in business administration and a master's degree in professional accounting. She is a certified public accountant, licensed in Texas.

Kathy K. Murphy

Office of Management and Chief Financial Officer

As Senior Deputy Comptroller for Management and Chief Financial Officer, Kathy K. Murphy is responsible for the OCC's departments of financial management; human capital (including continuing education); leadership, executive, and organizational development; administrative operations; and information technology. She is a member of the OCC's Executive Committee. She assumed these duties in October 2014.

From 2009 to 2014, as Deputy Comptroller and Chief Accountant, Ms. Murphy was the OCC's lead authority on bank accounting and financial reporting, providing counsel to examiners, the banking industry, and the accounting profession. She represented the OCC on the FFIEC's Reports Task Force and the Accounting Expert Group of the Basel Committee on Banking Supervision.

Ms. Murphy joined the OCC in 2002 after working at two large national accounting firms. She graduated from the University of Maryland with bachelor of science degrees in accountancy and finance. She is a certified public accountant and a member of the American Institute of Certified Public Accountants.

Blake Paulson

Supervision Risk and Analysis

As Senior Deputy Comptroller for Supervision Risk and Analysis, Blake Paulson oversees OCC staff responsible for Systemic Risk Identification Support and Specialty Supervision, Supervision System and Analytical Support, Economic and Policy Analysis, and Risk Analysis. He is a member of the OCC's Executive Committee and was designated the Chief National Bank Examiner in April 2020. Mr. Paulson served as Acting Comptroller from January 14, 2021, until May 10, 2021.

Before this role, Mr. Paulson served as the Chief Operating Officer for the agency. Mr. Paulson previously served as the Senior Deputy Comptroller for MCBS and the Deputy Comptroller of the agency's Central District. Mr. Paulson joined the OCC in 1986 in the Sioux Falls field office and obtained his commission as a National Bank Examiner in 1992 and cross-certification to examine federal savings associations in 2013.

Mr. Paulson has a bachelor of science degree in business administration from the University of South Dakota.

Joyce Cofield

Office of Minority and Women Inclusion

As Executive Director for the Office of Minority and Women Inclusion, Joyce Cofield provides executive direction, sets policy, and oversees agency matters relating to diversity in management, employment, and business activities. She reports to the Comptroller of the Currency. Ms. Cofield assumed her current duties in December 2010.

Since joining the OCC in 2001, Ms. Cofield has served in a variety of leadership roles in human capital, recruitment, and diversity management. Before joining the agency, she held several executive positions in private industry.

Ms. Cofield has a bachelor of science degree in biology from Virginia Union University and a master's degree in industrial microbiology from Boston University.

The OCC Executive Committee from left to right: **Sydney Menefee**, Senior Deputy Comptroller for Midsize and Community Bank Supervision; **Greg Coleman**, Senior Deputy Comptroller for Large Bank Supervision; **Grovetta N. Gardineer**, Senior Deputy Comptroller for Bank Supervision Policy; **Benjamin W. McDonough**, Senior Deputy Comptroller and Chief Counsel; **Michael J. Hsu**, Acting Comptroller of the Currency; **Blake Paulson**, Senior Deputy Comptroller for Supervision Risk and Analysis; **Kathy K. Murphy**, Senior Deputy Comptroller for Management and Chief Financial Officer; **William A. Rowe**, Chief Risk Officer (retired); and **Larry L. Hattix,** Senior Deputy Comptroller for Enterprise Governance and Ombudsman, and Chief Risk Officer.

FINANCIAL MANAGEMENT DISCUSSION AND ANALYSIS

LETTER FROM THE CHIEF FINANCIAL OFFICER

I am pleased to present the OCC's financial statements as an integral part of the 2021 Annual Report. Once again, our independent auditors have issued an unmodified opinion, demonstrating the OCC's ability to maintain its strong internal control environment, which is the foundation of accurate financial reporting and the safeguarding of agency assets.

In FY 2021, the Office of Management (OM) began several initiatives to enhance our services and further strengthen our processes and controls. OM began implementing a formal Quality Management Program to provide a formalized framework for documenting processes, internal controls, procedures, and responsibilities. This approach will ensure quality practices in operations, financial reporting, and strategic goals and objectives. The framework is supported by risk principles, communication and reporting standards, and documentation and records management requirements and is essential for ensuring that our processes are efficient, are effective, and produce quality outcomes. OM is also analyzing our most used services by having external reviews to identify solutions to enhance our customer's experience now and in the future.

This year, the OCC continued to make significant strides in its agency-wide efforts to optimize the use of office space and save costs. In our headquarters building, the OCC vacated three floors by using space more efficiently and implementing hoteling for staff who come into the office infrequently. The OCC also completed two major office relocations this year, in Denver and Houston, where we consolidated and optimized space usage.

Finally, in support of its continued efforts to identify, respond to, and mitigate cyber threats and incidents, the OCC launched an intensive vulnerability review process for high-risk software and hardware. The OCC also implemented several changes to strengthen workstation patching, including patching workstations more frequently and pre-staging the files for larger updates to laptops, to increase both the quality of the customer experience and the success of the deployment.

The OCC will continue to put our greatest asset—our people—first. The OCC leadership continues to prioritize providing a safe and healthy work environment for all employees as we continue to execute our important mission.

Kathy K. Murphy

Senior Deputy Comptroller for Management and Chief Financial Officer

FINANCIAL SUMMARY

The OCC received an unmodified audit opinion on its FY 2021 and FY 2020 financial statements. The OCC presents the principal financial statements to report the financial position and results of the agency's operations, pursuant to the requirements of 31 USC 3515(b). The OCC has prepared these statements from its books and records in accordance with U.S. generally accepted accounting principles (GAAP) for federal entities and the formats prescribed by the Office of Management and Budget (OMB). In addition, the OCC prepares financial reports to monitor and control budgetary resources using the same books and records.

The OCC's financial statements consist of the Balance Sheets, the Statements of Net Cost, the Statements of Changes in Net Position, the Statements of Budgetary Resources, and the Statements of Custodial Activity. The OCC presents the financial statements and notes on a comparative basis, providing financial information for FY 2021 and FY 2020.

The Statements of Budgetary Resources provide information about how budgetary resources were made available to the OCC for the year. These statements present the status of these resources and the net outlays of budgetary resources at the end of the year.

Table 8 illustrates the OCC's key components of financial condition, and the subsequent narrative sections address the OCC's financial activities in FY 2021 and FY 2020.

TABLE 8: KEY COMPONENTS OF FINANCIAL CONDITION, AS OF SEPTEMBER 30, 2021 (in Thousands)

			INCREASE/(DECREASE)	
	FY 2021	FY 2020	$	%
Costs[a]				
Total financing sources	$ 33,352	$ 30,723	$ 2,629	8.6%
Less: net cost	(34,532)	(7,181)	27,351	380.9%
Net change of cumulative results of operations	$ 67,884	$ 37,904	$ 29,980	79.1%
Net position[b]				
Assets				
Fund Balance With Treasury	$ 17,821	$ 7,408	$ 10,413	140.6%
Investments	2,108,252	1,999,931	108,322	5.4%
General property, plant, and equipment, net	53,967	63,041	(9,074)	(14.4%)
Accounts receivable and other	8,818	5,276	3,541	67.1%
Total assets	$ 2,188,858	$ 2,075,656	$ 113,202	5.5%
Liabilities				
Accounts payable and other accrued liabilities	$ 41,685	$ 32,221	$ 9,463	29.4%
Accrued payroll and benefits	114,572	107,510	7,063	6.6%
Deferred revenue	282,092	252,542	29,550	11.7%
Other actuarial liabilities	107,962	108,720	(758)	(0.7%)
Total liabilities	$ 546,311	$ 500,993	$ 45,318	9.0%
Net position	1,642,547	1,574,663	67,884	4.3%
Total liabilities and net position	$ 2,188,858	$ 2,075,656	$ 113,202	5.5%

Source: OCC financial system data.

[a] Statements of Net Cost and Statements of Changes in Net Position.

[b] Balance Sheets.

COST OF OPERATIONS

The OCC's net cost of operations is reported in the Statements of Net Cost and the Statements of Changes in Net Position. The OCC uses an activity-based time reporting system to allocate costs among the agency's programs. Costs are further divided into those resulting from transactions between the OCC and other federal entities (intragovernmental) and those between the OCC and nonfederal entities (with the public). The Statements of Net Cost present the full cost of operating the OCC's three major programs—supervise, regulate, and charter banks.

Total program costs for FY 2021 of $1,113.9 million reflected an increase of $34.4 million, or 3.2 percent, from $1,079.5 million reported in FY 2020.

During the pandemic, the costs rose for telecommunications to adjust to more employees teleworking and for cleaning services to ensure employees have a safe and supportive work environment. These cost increases were more than offset by the significant decrease in travel expenses as a result of the pandemic.

REVENUES

The OCC's operations are funded primarily by assessments and other fees paid by banks, interest received on investments in nonmarketable U.S. Treasury securities, and other income.

Total FY 2021 revenue of $1,144.7 million reflects a $50.1 million, or 4.6 percent, increase from FY 2020 revenue of $1,094.6 million. Total assets used in the September 30, 2021, semiannual assessment were $15.4 trillion, an increase of 19.4 percent, from $12.9 trillion a year earlier. The OCC's increase in assessment revenue is due to the rise in bank assets held within the national banking system.

Interest revenue totaled $21.0 million in FY 2021, a decrease of $6.3 million, or 23.1 percent, from the $27.3 million reported in FY 2020. The year-to-year change is primarily due to a decrease in overnight interest income because of lower average overnight rates. Other income includes revenue received from rental income and reimbursable activities with separate entities. Table 9 shows the OCC's funding sources for FY 2021 and FY 2020.

TABLE 9: FUNDING SOURCES (in Millions)

	FY 2021	FY 2020	CHANGE ($)	CHANGE (%)
Assessments	$ 1,104.3	$ 1,046.7	$ 57.6	5.5%
Interest revenue	21.0	27.3	(6.3)	(23.1%)
Other income	19.4	20.6	(1.2)	(5.8%)
TOTAL REVENUE	**$ 1,144.7**	**$ 1,094.6**	**$ 50.1**	**4.6%**

ASSETS

The OCC's assets include both "entity" and "non-entity" assets. The OCC uses entity assets, which belong to the agency, to fund operations. As of September 30, 2021, total assets were $2,188.9 million, an increase of $113.2 million, or 5.5 percent, from the total assets of $2,075.7 million reported on September 30, 2020.

Non-entity assets are assets that the OCC holds on behalf of another federal agency. The OCC's non-entity assets presented as accounts receivable are CMPs due the federal government through court-enforced legal actions.

INVESTMENTS

The OCC primarily invests available funds in nonmarketable U.S. Treasury securities issued through the U.S. Department of the Treasury's Bureau of the Fiscal Service consistent with the provisions of 12 USC 481 and 12 USC 192. The OCC manages risk by diversifying its portfolio holdings through laddering security maturities over a period not to exceed five years. Laddering in this manner facilitates the ability to reinvest in short- and long-term U.S. Treasury securities while maintaining sufficient cash for daily operating expenses. The OCC has the positive intent and ability to hold all U.S. Treasury securities to maturity and does not maintain any available for sale or trading securities.

On September 30, 2021, the amortized book value of intragovernmental investments and related accrued interest was $2,103.2 million, compared with $1,994.9 million the previous year. The difference of $108.3 million, or 5.4 percent, reflects an increase in invested funds as a result of operating surpluses. The market value of the OCC's intragovernmental investment portfolio in FY 2021 was $14.8 million higher than book value, compared with FY 2020, when the market value was $40.7 million higher than book value. This change is primarily attributable to the rise in interest rates in September of FY 2021—when interest rates increase, the market value of the agency's longer-term securities decreases.

The OCC's intragovernmental investment portfolio is composed of overnight and longer-term securities. The portion of the portfolio comprising longer-term investments as of September 30, 2021, and September 30, 2020, was $1,528 million, or 73.1 percent, and $1,328.0 million, or 67.0 percent, respectively. The weighted average maturity of the portfolio, including overnights, increased year over year to 2.00 years as of September 30, 2021, compared with 1.61 years as of September 30, 2020. This rise in the weighted average maturity reflects an increase in the OCC's longer-term investment holdings.

The OCC's intragovernmental portfolio earned an annual yield of 1.3 percent in FY 2021, compared with 1.6 percent in FY 2020. The OCC calculates annual portfolio yield by dividing the total interest earned during the year by the average ending monthly book value of investments.

LIABILITIES

The OCC's liabilities represent the resources due to others or held for future recognition and are composed largely of deferred revenue, accrued annual leave, accrued payroll and benefits, and other actuarial liabilities. Deferred revenue represents the unearned portion of semiannual assessments.

As of September 30, 2021, total liabilities were $546.3 million, a net increase of $45.3 million, or 9.0 percent, from total liabilities of $501.0 million on September 30, 2020. This change is largely due to an increase in deferred revenue in FY 2021 resulting from a $2.5 trillion increase in bank assets compared to FY 2020.

NET POSITION

The OCC's net position of $1,642.5 million as of September 30, 2021, an increase of $67.8 million, or 4.3 percent, over the $1,574.7 million reported for FY 2020, represents the cumulative net excess of the OCC's revenues over the cost of operations. The net position is presented on both the Balance Sheets and the Statements of Changes in Net Position.

The OCC allocates a significant portion of the net position to its financial reserves. Financial reserves are integral to the effective stewardship of the OCC's resources, and the OCC has a disciplined process for reviewing its reserve balances and allocating funds appropriately to support its ability to accomplish the agency's mission. The OCC's financial reserves are available to reduce the impact on the OCC's operations in the event of a significant fluctuation in revenues or expenses. The OCC also sets aside funds for ongoing operations.

As of September 30, 2021, the OCC's financial reserves were $1,525.3 million. This represents an increase of 2.1 percent from the end of FY 2020, when that amount was $1,493.5 million. These reserves are essential to a prudent and reasonable financial management strategy.

FINANCIAL STATEMENTS

OFFICE OF THE COMPTROLLER OF THE CURRENCY
BALANCE SHEETS

AS OF SEPTEMBER 30, 2021 AND 2020 (IN THOUSANDS)

	FY 2021	FY 2020
Assets		
Intragovernmental:		
Fund Balance With Treasury (Note 2)	$ 17,821	$ 7,408
Intragovernmental investments, net (Note 3)	2,103,252	1,994,931
Accounts receivable (Note 4)	2,600	3,443
Other assets	5	201
Total intragovernmental	**$ 2,123,678**	**$ 2,005,983**
With the public:		
Accounts receivable, net (Note 4)	6,148	1,546
With the public investments, net (Note 3)	5,000	5,000
General property, plant, and equipment, net (Note 5)	53,967	63,041
Other assets	65	86
Total With the public	**$ 65,180**	**$ 69,673**
Total assets	**$ 2,188,858**	**$ 2,075,656**
Liabilities		
Intragovernmental:		
Accounts payable and other accrued liabilities	$ 13,163	$ 11,333
Total intragovernmental	**13,163**	**11,333**
With the Public:		
Accounts payable	7,152	2,638
Accrued payroll and benefits	51,231	48,182
Accrued annual leave	63,341	59,328
Capital lease liabilities	1,283	1,899
Other accrued liabilities	20,087	16,351
Deferred revenue (Note 1)	282,092	252,542
Other actuarial liabilities (Note 7)	107,962	108,720
Total With the Public	**$ 533,148**	**$ 489,660**
Total liabilities	**$ 546,311**	**$ 500,993**
Net position (Note 8)	**1,642,547**	**1,574,663**
Total liabilities and net position	**$ 2,188,858**	**$ 2,075,656**

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

OFFICE OF THE COMPTROLLER OF THE CURRENCY
STATEMENTS OF NET COST

FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020 (IN THOUSANDS)

	FY 2021	FY 2020
Program costs:		
Supervise		
Intragovernmental	$ 164,372	$ 163,239
With the public	816,190	794,355
Subtotal—supervise	**$ 980,562**	**$ 957,594**
Regulate		
Intragovernmental	$ 16,744	$ 16,934
With the public	88,638	84,757
Subtotal—regulate	**$ 105,382**	**$ 101,691**
Charter		
Intragovernmental	$ 4,700	$ 3,482
With the public	23,235	16,688
Subtotal—charter	**$ 27,935**	**$ 20,170**
Total program costs	**$ 1,113,879**	**$ 1,079,455**
Less earned revenues not attributed to programs	(1,144,716)	(1,094,551)
Net program costs before gain/loss from changes in assumptions	**$ (30,837)**	**$ (15,096)**
Actuarial (gain)/loss (Note 7)	(3,695)	7,915
Net cost of operations (Note 9)	**$ (34,532)**	**$ (7,181)**

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

OFFICE OF THE COMPTROLLER OF THE CURRENCY
STATEMENTS OF CHANGES IN NET POSITION

FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020 (IN THOUSANDS)

	FY 2021		FY 2020	
Beginning balances	$	1,574,663	$	1,536,759
Other financing sources:				
Imputed financing (Note 10)		33,352		30,723
Net cost of operations		34,532		7,181
Net change		67,884		37,904
Ending balances	**$**	**1,642,547**	**$**	**1,574,663**

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

OFFICE OF THE COMPTROLLER OF THE CURRENCY
STATEMENTS OF BUDGETARY RESOURCES

FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020 (IN THOUSANDS)

	FY 2021		FY 2020	
Budgetary resources:				
Unobligated balance from prior year budget authority, net	$	1,664,755	$	1,669,476
Spending authority from offsetting collections		1,166,073		1,055,561
Total budgetary resources	**$**	**2,830,828**	**$**	**2,725,037**
Status of budgetary resources:				
New obligations and upward adjustments (total)	$	1,111,979	$	1,068,690
Unobligated balance, end of year:				
Exempt from apportionment, unexpired accounts		1,718,849		1,656,347
Unexpired unobligated balance, end of year		1,718,849		1,656,347
Expired unobligated balance, end of year		0		0
Unobligated balance, end of year (total)		1,718,849		1,656,347
Total status of budgetary resources	**$**	**2,830,828**	**$**	**2,725,037**
Outlays, net:				
Outlays, net (total) (discretionary and mandatory)		(115,039)		(16,483)
Agency outlays, net	**$**	**(115,039)**		**(16,483)**

The accompanying notes are an integral part of these financial statements

OFFICE OF THE COMPTROLLER OF THE CURRENCY
STATEMENTS OF CUSTODIAL ACTIVITY

FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020 (IN THOUSANDS)

	FY 2021	FY 2020
Revenue activity:		
Sources of cash collections		
Fines and penalties (Note 14)	$ 1,063,984	$ 132,138
Accrual adjustment	317	227
Total custodial revenue	**1,064,301**	**132,365**
Disposition of custodial revenue:		
Transferred to Treasury	1,063,984	132,138
(Increase)/decrease in amounts yet to be transferred	317	227
Total disposition for custodial revenue	**1,064,301**	**132,365**
Net custodial activity	**$ 0**	**$ 0**

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1—SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The OCC was created as a bureau within the Treasury Department by an act of Congress in 1863. The mission of the OCC was to establish and regulate a system of federally chartered national banks. The National Currency Act of 1863, rewritten and reenacted as the National Bank Act of 1864, authorized the OCC to supervise national banks and regulate their lending and investment activities. With the passage of Dodd–Frank on July 21, 2010, the OCC assumed the responsibility for the supervision of FSAs and rulemaking authority for all savings associations.

To achieve its goals and objectives, the OCC organizes its activities under three major programs: supervise, regulate, and charter banks. These three programs support the agency's overall mission by ensuring that banks operate in a safe and sound manner, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations.

The OCC examined its operations and has prepared these statements and notes in compliance with the Federal Accounting Standards Advisory Board's (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 47, "Reporting Entity." The OCC determined that it does not have a relationship with any entity that would require reporting as a related party as of September 30, 2021.

BASIS OF ACCOUNTING AND PRESENTATION

The OCC's financial statements are prepared from the agency's accounting records in conformity with GAAP as set forth by the FASAB. The OCC's financial statements are presented in accordance with the reporting guidance established by the OMB in Circular No. A-136, "Financial Reporting Requirements." Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

In addition, the OCC applies financial accounting and reporting standards pursuant to SFFAS No. 34, "The Hierarchy of Generally Accepted Accounting Principles."

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

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

Entity and non-entity assets: Entity assets are those that the OCC has the authority to use in its operations and include the assessments that the OCC collects semiannually from the banks it supervises in order to fund its operations. The OCC also collects CMPs as part of its operations. It records these as non-entity assets since the OCC is responsible for transferring these funds to the General Fund of the Treasury. These non-entity assets are not fiduciary, as fiduciary funds are those that the federal government holds on behalf of nonfederal individuals or entities that have an ownership interest.

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

Funds from dedicated collections: These funds are financed by specifically identified revenue that is provided to the government by nonfederal sources and reported by the OCC in accordance with SFFAS No. 43, “Funds From Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds.” These funds are required by statute to be used for designated activities or purposes and must be accounted for separately from the federal government’s Treasury General Fund. Typically, an agency reports these funds separately, but because all OCC funds are considered funds from dedicated collections, all net position amounts are recorded and classified as such.

REVENUES AND OTHER FINANCING SOURCES

The OCC derives its revenue primarily from assessments and other fees paid by banks, from income on investments in nonmarketable U.S. Treasury securities, and from rental income and reimbursable activities with other entities. The OCC does not receive congressional appropriations to fund its operations. Therefore, the OCC has no unexpended appropriations.

The OCC’s semiannual bank assessments are collected in the middle of each six-month assessment cycle. At the time of collection, the OCC records deferred revenue on its balance sheet as a liability for the assessments that the agency has not yet earned. The OCC recognizes deferred revenue as revenue as the supervisory services are delivered over the following three months.

Federal statute stipulates that the OCC’s funds are neither government funds nor appropriated monies (12 USC 481). They are maintained primarily in a U.S. government trust fund and remain available to cover the cost of the OCC’s operations in accordance with policies established by the Comptroller of the Currency.

FUND BALANCE WITH TREASURY

The Treasury Department processes the OCC’s cash receipts and disbursements. The OCC’s Statements of Budgetary Resources reflect the status of the agency’s Fund Balance With Treasury (FBWT). (For more information, see Note 2.)

INVESTMENTS, NET

The OCC has statutory authority to make investments. The OCC reports its net investments, both intragovernmental and with the public, on an amortized cost basis and related accrued interest. Premiums and discounts are amortized over the term of the investment using the effective interest method.

Consistent with the provisions of 12 USC 481 and 12 USC 192, the OCC invests (1) available funds held by the U.S. Treasury in nonmarketable U.S. Treasury securities that are not offered to the marketplace and cannot be bought and sold on exchange markets (intragovernmental investments); and (2) beginning in FY 2020, available funds held outside the Treasury in marketable U.S. Treasury securities, which are offered to the marketplace and can be bought and sold on securities exchange markets (with the public investments).

Intragovernmental investments, net: The OCC invests available funds held by the U.S. Treasury in U.S. Government Account Series (GAS) Treasury securities, which include bills, notes, and one-day certificates. GAS Treasury securities are available to federal agencies that have specific authority to invest in these special, nonmarketable U.S. Treasury securities. The OCC has the positive intent and ability to hold all U.S. Treasury securities to maturity in accordance with FASB Accounting Standards Codification (ASC) Topic 320, "Investments—Debt and Equity Securities." (For more information, see Note 3.)

With the public investments, net: The OCC also invests available funds held outside the Treasury in a money market mutual fund that operates as a "government money market fund" as defined in Rule 2a-7 under the Investment Company Act of 1940, as amended. It is the OCC's policy to invest in held-to-maturity securities. The fair value of these investments is based on the fair value measurement hierarchy classification, Level 1, in accordance with ASC Topic 820, "Fair Value Measurement." Level 1 reflects the unadjusted quoted prices in active markets for identical assets that the OCC is able to access at the measurement date. (For more information, see Note 3.)

ACCOUNTS RECEIVABLE

In accordance with SFFAS No. 1, "Accounting for Selected Assets and Liabilities," the OCC updates the allowance for loss on accounts receivable periodically to reflect the most current estimate of accounts that probably will be uncollectible. The OCC considers multiple factors when calculating the allowance, including how long the debt has been outstanding and what kind of debt it is. Once the allowance is calculated, the OCC uses it to reduce accounts receivable from the public. The OCC does not recognize any allowance for loss on intragovernmental accounts receivable. (For more information, see Note 4.)

GENERAL PROPERTY, PLANT, AND EQUIPMENT

General property, plant, and equipment (PP&E) and internal-use software are accounted for in accordance with SFFAS No. 6, "Accounting for Property, Plant, and Equipment," and SFFAS No. 10, "Accounting for Internal Use Software." General PP&E purchases and additions are stated at cost.

General PP&E purchased at a cost greater than or equal to the established capitalization thresholds are capitalized at cost and depreciated or amortized, as applicable. Depreciation is expensed on a straight-line basis over the estimated useful life of the asset with the exception of major leasehold improvements, which are amortized on a straight-line basis over the lesser of the terms of the related leases or the estimated useful lives. Land, minor leasehold improvements, and internal-use software in development are not depreciated or amortized. Major alterations and renovations, including leasehold and land improvements, are capitalized, while maintenance and repair costs are expensed as incurred. All other general PP&E are depreciated or amortized, as applicable, on a straight-line basis over their estimated useful lives.

Allowable internal-use software costs are capitalized and amortized once the software is placed in service. The OCC expenses purchases and software development costs that do not meet the capitalization criteria, when received or incurred.

The OCC tests for impairment in accordance with SFFAS No. 44, "Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use," and removes general PP&E from its asset accounts in the period of disposal, retirement, or removal from service. Any difference between the book value of general PP&E and amounts realized is recognized as a gain or loss in the same period that the asset is removed. (For more information, see Note 5.)

LIABILITIES

The OCC records liabilities for amounts that are likely to be paid because of events that have occurred as of the relevant balance sheet dates. The OCC's liabilities consist of routine operating accounts payable, accrued payroll and benefits, deferred revenue, and other liabilities. The OCC's liabilities represent the amounts owed or accrued under contractual or other arrangements governing the transactions, including operating expenses incurred but not paid. The OCC accounts for liabilities in accordance with SFFAS No. 5, "Accounting for Liabilities of the Federal Government."

Accounts payable: Accounts payable represent short-term liabilities to vendors and other entities. Interest penalties are paid when payments are late as prescribed by the Prompt Payment Act (31 USC 39). Discounts are taken when cost-effective and when the invoices are paid within the discount period.

Accrued annual leave: The OCC accrues and funds annual leave as it is earned and reduces the accrual as leave is taken or paid. Each year, the balance in the accrued annual leave account is adjusted to reflect actual leave balances with current pay rates. Sick leave and other types of leave are expensed as incurred.

Deferred revenue: The OCC's activities are primarily financed by assessments on assets held by banks. These assessments are due March 31 and September 30 of each year, based on each institution's asset balance in accordance with the methodology in the OCC Notice of Fees. Assessments are recognized as earned revenue on a straight-line basis. The unearned portions of collected assessments are classified as deferred revenue.

Contingent liabilities: The OCC recognizes and discloses contingencies for pending or threatened litigation and unasserted claims in accordance with SFFAS No. 12, "Recognition of Contingent Liabilities Arising From Litigation." As such, the OCC accrues an estimated loss if it is probable and the OCC is able to reasonably estimate the amount. If the likelihood of an unfavorable outcome is more than remote, the OCC discloses the contingent liability. (For more information, see Note 12.)

EMPLOYMENT BENEFITS

Retirement plans: All OCC employees participate in one of three retirement systems—the Civil Service Retirement System (CSRS or CSRS Offset), the Federal Employees Retirement System (FERS), or the

Pentegra Defined Benefit Plan (Pentegra DB Plan). The CSRS and FERS are administered by the U.S. Office of Personnel Management (OPM). Pursuant to the enactment of Public Law 99-335, which established FERS, most OCC employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired before January 1, 1984, are covered by the CSRS, except for those who, during the election period, joined FERS. The Pentegra DB Plan is administered by the president of the plan. The Pentegra DB Plan covers those employees transferred from the former OTS who elected the plan before October 8, 1989, when it was closed to new entrants.

The OCC does not report CSRS or FERS assets or accumulated plan benefits that may be applicable to its employees in its financial statements; these amounts are reported by the OPM. Although the OCC reports no liability for future payments to employees under these programs, the federal government is liable for future payments to employees through the various agencies administering these programs. The OCC recognizes future benefit costs as imputed costs based on OPM cost factors.

The Pentegra DB Plan is a tax-exempt, multiple-employer, DB pension plan. In accordance with the provisions of Dodd–Frank (as amended by the Economic Growth Act), the OCC assumed the role of benefit administrator for the Pentegra DB Plan in FY 2011. For funding purposes, when the plan is in surplus (assets are greater than plan liabilities) the OCC's annual costs equal plan expenses, which include administrative expenses and Pension Benefit Guaranty Corporation premiums. When the plan is not in surplus, the OCC's expenses also include the present value of the benefits expected to be earned in the plan year (the target normal cost), and a portion of the unfunded liability. The plan is currently in surplus. The OCC is committed to adhering to sound financial policies and management oversight of the plan to ensure its sustainability for current and future retirees. The OCC does not report in its financial statements any assets, accumulated plan benefits, or actuarial gains/losses from the Pentegra DB Plan. Pentegra, as plan administrator, reports these amounts in an annual filing.

Thrift savings and 401(k) plans: The OCC's employees are eligible to participate in the federal Thrift Savings Plan (TSP). FERS employees can receive up to 4.0 percent in OCC matching contributions, in addition to an automatic contribution of 1.0 percent of adjusted base pay. The OCC's contributions to the TSP totaled \$23.5 million and \$23.0 million for FY 2021 and FY 2020, respectively, and are included as a component of "Personnel compensation and benefits" in Note 9, "Net Cost of Operations."

OCC employees also may elect to contribute a portion of their total pay to the OCC-sponsored 401(k) plan, subject to Internal Revenue Service regulations that apply to employee contributions in both the federal TSP and the OCC-sponsored 401(k) plan. The OCC matches the first 1.0 percent of employee contributions to the OCC 401(k) plan and provides an automatic employer contribution of 4.0 percent of adjusted base pay.

The amount of each participant's matching contribution to the 401(k) plan is based on the applicable retirement system under which each participant is covered. For those who participate in FERS, the CSRS, or CSRS Offset, the OCC provides an automatic contribution of 4.0 percent of adjusted base pay and an additional matching contribution of up to 1.0 percent. For those who participate in the OTS 401(k) plan, the OCC provides an automatic contribution of 4.0 percent of adjusted base pay, an additional matching contribution of up to 3.0 percent to participants in the Financial Institutions Retirement Fund, and a 1.0 percent additional match to all other participants.

With few exceptions, employees who leave the OCC before the vesting period (three or more years of continuous credited service) forfeit the OCC's matching contributions. The OCC's 401(k) Plan Adoption

Agreement provides that the OCC may use forfeitures to pay plan expenses and offset the employer's contribution obligation. In addition, the agency may re-allocate forfeitures among participants. This year, the OCC used forfeitures to defray plan expenses.

The OCC's contributions to the 401(k) plans totaled $26.4 million in both FY 2021 and FY 2020 and are included as a component of "Personnel compensation and benefits" in Note 9, "Net Cost of Operations."

Federal Employees Health Benefits and Federal Employees' Group Life Insurance: Employees and retirees of the OCC are eligible to participate in the Federal Employees Health Benefits and Federal Employees' Group Life Insurance plans administered by the OPM, which involve a cost sharing of biweekly coverage premiums by OCC employees and the OCC. The OCC does not fund post-retirement benefits for these programs. Instead, the OCC's financial statements recognize an imputed financing source and corresponding expense that represent the OCC's share of the cost to the federal government of providing these benefits to all eligible OCC employees.

Post-retirement life insurance benefit plan: The OCC sponsors a life insurance benefit plan for current and retired employees. The OCC's life insurance benefit plan is a defined-benefit plan for which the benefit is earned over the period from the employee's date of hire to the date on which the employee is assumed to retire. The valuation of the plan is performed in accordance with generally accepted actuarial principles and practices, including the applicable Actuarial Standards of Practice as issued by the Actuarial Standards Board. Specifically, the OCC uses the actuarial cost method as outlined in FASB ASC Topic 715, "Compensation—Retirement Benefits," to determine costs for its retirement plans. Gains or losses owing to changes in actuarial assumptions are amortized over the service life of the plan. The actuarial assumptions and methods used in calculating actuarial amounts comply with the requirements for post-retirement benefits other than pensions as set forth in FASB ASC Topic 715, and for health benefit plans as set forth in American Institute of Certified Public Accountants Statement of Position 92-6, "Accounting and Reporting by Health and Welfare Benefit Plans." (For more information, see Note 7.)

NET POSITION

Net position is the residual difference between assets and liabilities and is composed of cumulative results of operations. The OCC allocates a significant portion of the net position to its financial reserves. Financial reserves are integral to the effective stewardship of the OCC's resources, particularly because the agency does not receive congressional appropriations. (For more information, see Note 8.)

CUSTODIAL ACTIVITY

Non-entity receivables, liabilities, and revenues are recorded as custodial activity in the Statements of Custodial Activity and include amounts collected for fines, CMPs, and related interest assessments. Revenues are recognized as cash collected that will be transferred to the General Fund of the Treasury Department. The OCC presents the Statements of Custodial Activity on the "modified cash basis," in accordance with SFFAS No. 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting." The OCC recognizes revenues as cash is collected and records a "noncash accrual adjustment" representing the net increase or decrease during the reporting period in net revenue-related assets and liabilities.

NOTE 2—FUND BALANCE WITH TREASURY

The FBWT represents the budgetary resources available for the OCC's use and is a reconciliation between budgetary and proprietary accounts. The OCC's FBWT consists of one U.S. Treasury fund symbol designated as a trust fund and established by 12 USC 481, which governs the collection and use of assessments and other funds by the OCC.

The OCC's FBWT consists of unobligated and obligated balances that reflect the budgetary authority remaining for disbursement against current or future obligations. The unobligated balance represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations and is classified as available for future OCC use. The obligated balance not yet disbursed represents funds that have been obligated for goods that have not been received or services that have not been performed. It also represents goods and services that have been delivered or received but for which payment has not been made. The majority of the OCC's nonbudgetary FBWT account balance represents investment accounts that reduce the status of the FBWT.

The OCC holds a limited amount of funds outside of Treasury that are classified as with the public investments, net. See Note 3 for more information.

As of September 30, 2021, and September 30, 2020, there were no unreconciled differences between U.S. Treasury records and balances reported on the OCC's general ledger. Table 10 depicts the OCC's FBWT amounts for FY 2021 and FY 2020.

TABLE 10: FUND BALANCE WITH TREASURY (in Thousands)

	FY 2021		FY 2020	
Fund balance				
Trust fund	$	17,821	$	7,408
Status of FBWT				
Unobligated balance—available	$	1,718,632	$	1,656,347
Obligated balance not yet disbursed		372,317		319,564
Nonbudgetary FBWT		(2,073,128)		(1,968,503)
Total	**$**	**17,821**	**$**	**7,408**

NOTE 3—INVESTMENTS, NET

Intragovernmental investments, net: The OCC's investments are stated at amortized cost and the related accrued interest. Premiums and discounts are amortized over the term of the investment using the effective interest method. The fair market value of intragovernmental investment securities was $2,118.1 million on September 30, 2021, and $2,035.6 million on September 30, 2020. The overall portfolio earned an annual yield of 1.3 percent for FY 2021 and 1.6 percent for FY 2020.

The yield-to-maturity on individual securities in the non-overnight portion of the OCC's investment portfolio ranged from 0.2 percent to 3.1 percent on September 30, 2021, and from 0.3 percent to 3.1 percent on September 30, 2020.

With the public investments, net: During FY 2020, the OCC invested $5.0 million in a money market mutual fund, Federated Hermes Trust for Treasury Obligations Fund, Capital Share Class (TOCXX), through a state-chartered Federal Reserve-supervised bank. No additional funds were added to the original investment in FY 2021. The bank and its related affiliates are responsible for the administration of the investments in the fund. Although the fund is not insured or guaranteed by the FDIC or any other government agency, the fund complies with Rule 2a-7 definition of a government money market fund.

TABLE 11: FY 2021 INVESTMENTS, NET (in Thousands)

	COST	AMORTIZATION METHOD	AMORTIZED (PREMIUM) DISCOUNT	INTEREST RECEIVABLE	INVESTMENTS, NET	OTHER ADJUSTMENTS	MARKET VALUE DISCLOSURE
Intragovernmental securities:							
Nonmarketable market-based	$ 2,096,220	Effective interest	$ 2,172	$ 4,860	$ 2,103,252	$ 0	$ 2,118,094
Total intragovernmental investments	**$ 2,096,220**		**$ 2,172**	**$ 4,860**	**$ 2,103,252**	**$ 0**	**$ 2,118,094**
With the public securities:							
Nonmarketable market-based	$ 5,000	Effective interest	$ 0	$ 0	$ 5,000	$ 0	$ 5,000
Total with the public investments	**$ 5,000**		**$ 0**	**$ 0**	**$ 5,000**	**$ 0**	**$ 5,000**

TABLE 12: FY 2020 INVESTMENTS, NET (in Thousands)

	COST	AMORTIZATION METHOD	AMORTIZED (PREMIUM) DISCOUNT	INTEREST RECEIVABLE	INVESTMENTS, NET	OTHER ADJUSTMENTS	MARKET VALUE DISCLOSURE
Intragovernmental securities:							
Nonmarketable market-based	$ 1,988,280	Effective interest	$ 1,580	$ 5,071	$ 1,994,931	$ 0	$ 2,035,639
Total intragovernmental investments	**$ 1,988,280**		**$ 1,580**	**$ 5,071**	**$ 1,994,931**	**$ 0**	**$ 2,035,639**
With the public securities:							
Nonmarketable market-based	$ 5,000	Effective interest	$ 0	$ 0	$ 5,000	$	$ 5,000
Total with the public investments	**$ 5,000**		**$ 0**	**$ 0**	**$ 5,000**	**$**	**$ 5,000**

NOTE 4—ACCOUNTS RECEIVABLE

Except for CMPs, accounts receivable represent monies due for services and goods provided that are retained by the OCC upon collection. The amounts shown for federal receivables include pension-sharing costs for former OTS employees transferred to other federal agencies in accordance with the provisions of Dodd–Frank. CMP receivables are amounts assessed against people or banks for violations of law, regulation, and orders; unsafe or unsound practices; and breaches of fiduciary duty. Because CMPs are not debts owed to the OCC, the amount outstanding does not enter into the calculation for the allowance for uncollectible accounts. (For more information on how the OCC calculates the allowance, see Note 1.)

TABLE 13: FY 2021 ACCOUNTS RECEIVABLE (in Thousands)

	GROSS	ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS	ACCOUNTS RECEIVABLE, NET
Federal receivables	$ 2,600	$ 0	$ 2,600
CMP receivables	1,856	0	1,856
Nonfederal receivables	4,292	0	4,292
Total accounts receivable	**$ 8,748**	**$ 0**	**$ 8,748**

TABLE 14: FY 2020 ACCOUNTS RECEIVABLE (in Thousands)

	GROSS	ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS	ACCOUNTS RECEIVABLE, NET
Federal receivables	$ 3,443	$ 0	$ 3,443
CMP receivables	1,538	0	1,538
Nonfederal receivables	9	1	8
Total accounts receivable	**$ 4,990**	**$ 1**	**$ 4,989**

NOTE 5—GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

The OCC's assets include land, a building, leasehold improvements, equipment, a capital lease, and internal-use software. Please see Note 1 for details on the OCC's capitalization policy and accounting for depreciation and amortization. The figures in tables 15 and 16 present the OCC's capitalization thresholds and the general PP&E balances as of September 30, 2021 and 2020, respectively.

In FY 2021, the OCC recognized $10.9 million of fully depreciated assets and fully amortized leasehold assets removed from service, compared with $4.2 million in FY 2020. In FY 2021, the OCC recognized a loss of $9.0 million on asset disposals, mainly resulting from the reduction in leased space at the OCC's headquarters building in Washington, D.C.

The OCC's building and associated land are located in Washington, D.C. The building is a rental-income property that the OCC uses to supplement its operating budget (see Note 6).

TABLE 15: FY 2021 PROPERTY, PLANT, AND EQUIPMENT, NET (in Thousands)

CLASS OF ASSETS	CAPITALIZATION THRESHOLD	USEFUL LIFE (IN YEARS)	COST	ACCUMULATED DEPRECIATION/ AMORTIZATION	NET BOOK VALUE
Land	NA	NA	$ 7,101	$ 0	$ 7,101
Building	$ 50	50	49,188	(42,343)	6,845
Leasehold improvements	50	5-20	97,236	(67,543)	29,693
Equipment	50	5	39,682	(31,034)	8,648
Capital leases	50	5	3,167	(1,892)	1,275
Internal-use software	$ 250	5	90,016	(89,611)	405
Total			**$ 286,390**	**$ (232,423)**	**$ 53,967**

TABLE 16: FY 2020 PROPERTY, PLANT, AND EQUIPMENT, NET (in Thousands)

CLASS OF ASSETS	CAPITALIZATION THRESHOLD	USEFUL LIFE (IN YEARS)	COST	ACCUMULATED DEPRECIATION/ AMORTIZATION	NET BOOK VALUE
Land	NA	NA	$ $7,101	$ 0	$ $7,101
Building	$ 50	50	49,188	(41,290)	7,898
Leasehold improvements	50	5-20	110,803	(75,087)	35,716
Equipment	50	5	43,234	(33,903)	9,331
Capital leases	50	5	3,167	(1,255)	1,912
Internal-use software	$ 250	5	91,729	(90,646)	1,083
Total			**$ 305,222**	**$ (242,181)**	**$ 63,041**

NOTE 6—LEASES

OCC AS LESSEE

The OCC leases equipment and office space for its headquarters operations in Washington, D.C., and for district and field operations. The OCC evaluates all leases at inception in accordance with the criteria set forth in SFFAS No. 5, "Accounting for Liabilities of the Federal Government." In FY 2021, all but one of the OCC's leases were recorded as operating leases. The one capital lease is with a nonfederal lessor and will be fully amortized in September 2023. The total future minimum lease payments for the capital lease are immaterial. The costs for both the operating and capital leases are included in the Statements of Net Cost. These leases are noncancelable and have expiration dates ranging from FY 2022 to FY 2028, the majority with renewal options. The leases provide for future increased payments based on increases in real estate taxes, operating costs, or selected price indexes.

During FY 2021, the OCC reduced its amount of leased space at its headquarters building as part of an effort to optimize office space. While no cost savings was realized in FY 2021, the reduction in leased space reduces the minimum lease payments for headquarters for FY 2022 and beyond.

The future minimum lease payments to nonfederal lessors through FY 2027 and thereafter, not including renewals, are shown in table 17. The OCC has two leases with federal lessors with end dates in 2022. Total future minimum lease payments to federal lessors are immaterial.

TABLE 17: FY 2021 FUTURE LEASE PAYMENTS TO NONFEDERAL LESSORS FOR OPERATING LEASES

(in Thousands)

YEAR	PROPERTY	EQUIPMENT	TOTAL
2022	$ 55,945	$ 1,493	$ 57,438
2023	39,742	60	39,802
2024	36,114	0	36,114
2025	33,596	0	33,596
2026	32,912	0	32,912
2027 and beyond	415,697	0	415,697
Total	**$ 614,006**	**$ 1,553**	**$ 615,559**

OCC AS LESSOR

In FY 2012, the OCC entered into a 20-year occupancy agreement with another federal agency for space in the building the OCC owns. This agreement expires in February 2032 and includes renewal options. The agreement provides for annual base rent and additional rent for building operating expenses. The agreement also provides for fixed future increases in rents over the term of the agreement. The OCC is also continuing to enter into lease agreements with retail tenants to comply with the District of Columbia's requirement to have retail establishments on the plaza level. The future minimum rental income through FY 2027 and thereafter, not including renewals, is shown in table 18.

TABLE 18: FY 2021 FUTURE RENTAL INCOME (in Thousands)

YEAR	AMOUNT
2022	$ 14,223
2023	14,465
2024	14,703
2025	14,997
2026	15,297
2027 and beyond	88,033
Total	**$ 161,718**

NOTE 7—OTHER ACTUARIAL LIABILITIES

The OCC's other actuarial liabilities are reported on the Balance Sheets and include the following components.

TABLE 19: ACTUARIAL LIABILITIES (in Thousands)

COMPONENT	FY 2021	FY 2020
Post-retirement life insurance benefits	$ 97,027	$ 97,749
Federal Employees' Compensation Act	9,684	9,549
Pentegra DB Plan	1,251	1,422
Total actuarial liabilities	**$ 107,962**	**$ 108,720**

POST-RETIREMENT LIFE INSURANCE BENEFITS

The OCC sponsors a life insurance benefit plan for current and retired employees. The weighted average discount rate used in determining the post-retirement life insurance benefits, also known as the accumulated post-retirement benefit obligation, was 3.2 percent in FY 2021 and 2.9 percent in FY 2020. The year-over-year net actuarial liability remained steady ($97.0 million in FY 2021 and $97.7 million in FY 2020) with the OCC recognizing a $3.7 million actuarial gain in FY 2021 and an actuarial loss of $6.5 million in FY 2020.

Total periodic post-retirement life insurance benefit expenses are recognized as program costs in the Statements of Net Cost. Any gains or losses from changes in long-term assumptions used to measure liabilities for post-retirement life insurance benefits are displayed separately in the Statements of Net Cost, as required. Table 20 presents a reconciliation of the beginning and ending post-retirement life insurance liability and provides material components of the related expenses.

TABLE 20: RECONCILIATION OF BEGINNING AND ENDING POST-RETIREMENT LIABILITY AND THE RELATED EXPENSES (in Thousands)

CHANGE IN ACTUARIAL AND ACCRUED BENEFITS	FY 2021	FY 2020
Actuarial post-retirement liability, beginning balance	$ 97,749	$ 87,533
Actuarial expense		
Normal cost	1,924	1,813
Interest on the liability balance	2,839	2,932
Actuarial (gain)/loss		
From experience	726	(147)
From assumption changes	(3,695)	7,915
Prior service costs		
Total expense	**1,794**	**12,513**
Less amounts paid	(2,516)	(2,297)
Actuarial post-retirement liability, ending balance	**$ 97,027**	**$ 97,749**

FEDERAL EMPLOYEES' COMPENSATION ACT

The Federal Employees' Compensation Act provides income and medical cost protection to cover federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for OCC employees covered under the Federal Employees' Compensation Act are administered by the U.S. Department of Labor and billed to the OCC. The FY 2021 present value of these estimated outflows was calculated using a discount rate of 2.2 percent for wage benefits and 2.1 percent for medical benefits. For FY 2020, the discount rates for wage and medical benefits were 2.4 percent and 2.3 percent, respectively.

PENTEGRA DEFINED BENEFIT PLAN

The Pentegra DB Plan is a tax-exempt, multiple-employer, DB pension plan in which participating employers pay all costs into one general account. At retirement, employees may choose either a lump sum payment or an annuity/lump sum split. The Pentegra DB Plan year begins July 1 and ends June 30.

In FY 2021 and FY 2020, the OCC paid $5.7 million and $4.8 million and recognized plan expenses of $5.5 million and $5.0 million, respectively. At September 30, 2021 and 2020, the OCC had accrued

$1.2 million and $1.4 million, respectively, representing the portion of the plan expenses from July to September of each fiscal year that is paid in the following fiscal year. The OCC made the minimum required contribution for the 2020–2021 plan year expenses.

NOTE 8—NET POSITION

Net position represents the net result of operations since inception and includes cumulative amounts related to investments in capitalized assets held by the OCC. The OCC allocates a portion of its net position as financial reserves for use at the Comptroller's discretion. In addition, the OCC sets aside funds in the net position to cover the cost of ongoing operations, including commitments and open obligations supporting the achievement of OCC strategic goals and objectives. The year-to-year increase in net position reflects the excess of revenues over the cost of operations for both years presented. Table 21 shows balances for FY 2021 and FY 2020.

TABLE 21: NET POSITION AVAILABILITY (in Thousands)

COMPONENT	FY 2021		FY 2020	
Financial reserves	$	1,525,343	$	1,493,492
Set aside for ongoing operations		117,204		81,171
Net position	**$**	**1,642,547**	**$**	**1,574,663**

NOTE 9—NET COST OF OPERATIONS

The net cost of operations represents the OCC's operating costs deducted from assessments and fees paid by banks and other income earned. The operating costs include the gain or loss from actuarial experience and assumption changes per the guidance in SFFAS No. 33, "Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses From Changes in Assumptions and Selecting Discount Rates and Valuation Dates." The imputed financing sources for net cost of operations are reflected in the Statements of Changes in Net Position, Note 10, and Note 11. Table 22 illustrates the OCC's operating expense categories for FY 2021 and FY 2020.

TABLE 22: NET COST (EXCESS OF REVENUES OVER COST) OF OPERATIONS BY EXPENSE CATEGORY

(in Thousands)

COMPONENT	FY 2021		FY 2020	
Personnel compensation and benefits	$	817,212	$	800,879
Contractual services		120,172		116,368
Rent, communication, and utilities		85,271		86,642
Travel and transportation of persons and things		6,096		19,074
Imputed costs (Note 10)		33,352		30,723
Depreciation		20,962		11,588
Other		27,119		22,096
Total cost of operations		1,110,184		1,087,370
Less earned revenues not attributed to programs		(1,144,716)		(1,094,551)
Total	**$**	**(34,532)**	**$**	**(7,181)**

NOTE 10—IMPUTED COSTS AND FINANCING SOURCES

In accordance with SFFAS No. 5, federal agencies must recognize the portions of employees' pension and other retirement benefits to be paid by OPM trust funds. These amounts are recorded as imputed costs and imputed financing for other agencies. Annually, OPM provides federal agencies with cost factors for computing current year imputed costs. These cost factors are multiplied by the current year salary or number of employees, as applicable, to provide an estimate of the imputed financing that OPM trust funds will provide for each agency.

The imputed cost categories for FY 2021 and FY 2020 are listed in the table below. These imputed costs are included on the Statements of Net Cost. The financing sources absorbed by OPM are reflected in the Statements of Changes in Net Position and in Note 11. The year-to-year change in imputed cost is related to an increase in the FERS employing agency contribution rate for retirement benefits.

TABLE 23: IMPUTED COSTS ABSORBED BY THE OPM (in Thousands)

COMPONENT	FY 2021		FY 2020	
Retirement	$	5,059	$	3,513
Federal Employee Health Benefits		28,234		27,152
Federal Employees' Group Life Insurance		59		58
Total	**$**	**33,352**	**$**	**30,723**

NOTE 11—RECONCILIATION OF NET COST TO NET OUTLAYS

The Reconciliation of Net Cost of Operations to Net Outlays depicts the difference between proprietary financial accounting information and budgetary accounting information. Proprietary financial accounting information is intended to depict the U.S. government's financial operations and financial position presented on an accrual basis in accordance with GAAP, which includes the recognition of assets and liabilities for which collections and payments, respectively, have not been made. In contrast, budgetary accounting information is used for planning and control purposes and includes net outlays that reflect both the receipt and use of cash, as well as reporting the federal deficit. The reconciliation of the OCC's net cost (presented on an accrual basis) and net outlays (presented on a budgetary basis) reflects the relationship between financial accounting and budgetary information. The reconciliation serves not only to identify costs paid in the past and those that will be paid in the future but also to assure integrity between financial and budgetary accounting. Tables 24 and 25 depict the OCC's Reconciliation of Net Cost to Net Outlays for FY 2021 and FY 2020. In table 25, the presentation of the prior year Reconciliation of Net Cost to Net Outlays is presented as it was in FY 2020.

TABLE 24: FY 2021 RECONCILIATION OF NET COST TO NET OUTLAYS (in Thousands)

	INTRA-GOVERNMENTAL	WITH THE PUBLIC	TOTAL FY 2021
Net cost	$ 146,797	$ (181,329)	$ (34,532)
Components of net cost not part of net outlays:			
Property, plant, and equipment depreciation	$ 0	$ (9,074)	$ (9,074)
Increase/(decrease) in assets:			
Accounts receivable	(843)	4,600	3,757
Investments	108,321	0	108,321
Other assets	(196)	(20)	(216)
(Increase)/decrease in liabilities:			
Accounts payable	0	(4,514)	(4,514)
Salaries and benefits	(1,740)	(7,062)	(8,802)
Other liabilities	(90)	(31,912)	(32,002)
Other financing sources:			
Imputed financing	(33,352)	0	(33,352)
Total components of net cost not part of net outlays	**$ 72,100**	**$ (47,982)**	**$ 24,118**
Components of net outlays that are not part of net cost:			
Public Debt Investments	(104,625)	0	(104,625)
Total components of net outlays that are not part of net cost	**(104,625)**	**0**	**(104,625)**
Net outlays	**$ 114,272**	**$ (229,311)**	**$ (115,039)**

TABLE 25: FY 2020 RECONCILIATION OF NET COST TO NET OUTLAYS (in Thousands)

	INTRA-GOVERNMENTAL	WITH THE PUBLIC	TOTAL FY 2020
Net cost	$ 131,549	$ (138,730)	$ (7,181)
Components of net cost not part of net outlays:			
Property, plant, and equipment depreciation	$ 0	$ (11,588)	$ (11,588)
Increase/(decrease) in assets:			
Accounts receivable	343	2	345
Investments	11,565	5,000	16,565
Other assets	(438)	15	(423)
Increase/(decrease) in liabilities:			
Accounts payable	0	(669)	(669)
Salaries and benefits	(1,407)	(11,115)	(12,522)
Other liabilities	(658)	21,373	20,715
Other financing sources:			
Imputed financing	(30,723)	0	(30,723)
Total components of net cost not part of net outlays	**$ (21,318)**	**$ 3,018**	**$ (18,300)**
Components of net outlays that are not part of net cost:			
Acquisition of capital assets	0	8,998	8,998
Total components of net outlays that are not part of net cost	0	8,998	8,998
Net outlays	**$ 110,231**	**$ (126,714)**	**$ (16,483)**

NOTE 12—CONTINGENT LIABILITIES

The OCC recognizes and discloses contingencies in accordance with SFFAS No. 5, as amended by SFFAS No. 12. The OCC is party to various administrative proceedings, legal actions, and claims brought against the agency, including threatened or pending litigation involving federal employment claims, some of which may ultimately result in settlements or decisions against the federal government.

In FY 2021, the OCC recorded an additional $130,000 contingent liability for an ongoing legal case where the risk of loss was probable, and the amount was estimable. The estimated contingent liability of this case is between $940,000 and $1,010,000. In FY 2020, the OCC increased the same liability by $140,000 from the prior year.

NOTE 13—UNDELIVERED ORDERS AT THE END OF THE PERIOD

Undelivered orders represent the amount of goods or services ordered to perform the OCC's mission objectives, but which have not been received.

TABLE 26: UNDELIVERED ORDERS AT THE END OF THE PERIOD (in Thousands)

	FY 2021	FY 2020
Undelivered orders paid at the end of the period		
Intragovernmental	$ 5	$ 201
With the public	65	85
Total undelivered orders paid at the end of the period	$ 70	$ 286
Undelivered orders unpaid at the end of the period		
Intragovernmental	$ 6,851	$ 5,938
With the public	110,346	75,228
Total undelivered orders unpaid at the end of the period	$ 117,197	$ 81,166
Total	**$ 117,267**	**$ 81,452**

NOTE 14—CUSTODIAL REVENUES

The OCC assesses fines and penalties against people or banks for violations of law, regulation, and orders; unsafe or unsound practices; and breaches of fiduciary duty. These amounts typically are collected in the same year that the OCC assesses them and are recognized as cash collected that will be transferred to the General Fund of the Treasury. The change in FY 2021 is due to an increase in the need to assess penalties against regulated institutions.

TABLE 27: CUSTODIAL REVENUE (in Thousands)

	TAX YEAR				2021 COLLECTIONS
	2021	2020	2019	PRE-2019	
Fines and penalties, nontax related	$ 1,063,785	$ 171	$ 0	$ 28	$ 1,063,984

	TAX YEAR				2020 COLLECTIONS
	2020	2019	2018	PRE-2018	
Fines and penalties, nontax related	$ 131,941	$ 92	$ 86	$ 19	$ 132,138

WILLIAMS ADLEY

Independent Auditor's Report

Acting Comptroller of the Currency
Office of the Comptroller of the Currency

Deputy Inspector General
Department of the Treasury

In our audits of the fiscal years 2021 and 2020 financial statements of the Office of the Comptroller of the Currency (OCC), we found:

- the OCC's financial statements as of and for the fiscal years ended September 30, 2021 and 2020, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- no material weaknesses in internal control over financial reporting based on the limited procedures we performed; [1] and
- no reportable noncompliance for fiscal year 2021 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail (1) our report on the financial statements, required supplementary information (RSI)[2], and other information included with the financial statements; [3] (2) our report on internal control over financial reporting; and (3) our report on compliance with laws, regulations, contracts, and grant agreements.

Report on the Financial Statements

In accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 21-04, *Audit Requirements for Federal Financial Statements*, we have audited the OCC's financial statements. The OCC's financial statements comprise the balance sheets as of September 30, 2021, and 2020; the related statements of net cost, changes in net

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[1]A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

[2]The RSI consists of Management's Discussion and Analysis, inclusive of its Financial Summary following the Message from the Chief Financial Officer, which are included with the financial statements.

[3]Other information consists of information included with the financial statements, other than the auditor's report and RSI.

position, budgetary resources, and custodial activity for the fiscal years then ended; and the related notes to the financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB 21-04. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

Management's Responsibility

The OCC's management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in documents containing the audited financial statements and auditor's report, and ensuring the consistency of that information with the audited financial statements and the RSI; and (4) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. U.S. generally accepted auditing standards, U.S. generally accepted government auditing standards, and OMB 21-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We are also responsible for applying certain limited procedures to RSI and other information included with the financial statements.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the auditor's assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audits also included performing such other procedures as we considered necessary in the circumstances.

Opinion on Financial Statements

In our opinion, the OCC's financial statements present fairly, in all material respects, the OCC's financial position as of September 30, 2021, and 2020, and its net cost of operations, changes in net position, budgetary resources, and custodial activity for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. Although the RSI is not a part of the financial statements, FASAB considers this information to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to the auditor's inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

Other Information

The OCC's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. We read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements. Our audit was conducted for the purpose of forming an opinion on the OCC's financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

Report on Internal Control over Financial Reporting

In connection with our audits of OCC's financial statements, we considered the OCC's internal control over financial reporting, consistent with our auditor's responsibility discussed below. We performed our procedures related to the OCC's internal control over financial reporting in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

The OCC's management is responsible for maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

In planning and performing our audit of the OCC's financial statements as of and for the year ended September 30, 2021, in accordance with U.S. generally accepted government auditing standards, we considered the OCC's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the OCC's internal control over financial reporting. Accordingly, we do not express an opinion on the OCC's internal control over financial reporting. We are required to report all deficiencies that are considered to be significant deficiencies[2] or material weaknesses. We did not consider all internal controls relevant to operating objectives, such as those controls relevant to preparing performance information and ensuring efficient operations.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error.

Results of Our Consideration of Internal Control over Financial Reporting

Our consideration of internal control was for the limited purpose described above, and was not designed to identify all deficiencies in internal control that might be material weaknesses and significant deficiencies or to express an opinion on the effectiveness of the OCC's internal control over financial reporting. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Intended Purpose of Report on Internal Control over Financial Reporting

The purpose of this report is solely to describe the scope of our consideration of the OCC's internal control over financial reporting and the results of our procedures, and not to provide an opinion on the effectiveness of the OCC's internal control over financial reporting. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering internal control over financial reporting. Accordingly, this report on internal control over financial reporting is not suitable for any other purpose.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

In connection with our audits of the OCC's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibility discussed below. We caution that noncompliance may occur and not be detected by these tests. We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

The OCC's management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to the OCC.

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[2]A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Auditor's Responsibility

Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements applicable to the OCC that have a direct effect on the determination of material amounts and disclosures in the OCC's financial statements, and perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the OCC.

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2021 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to the OCC. Accordingly, we do not express such an opinion.

Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

Williams, Adley & Company-DC, LLP

Washington, D.C.

November 18, 2021

OTHER INFORMATION

KEY PERFORMANCE MEASURES AND RESULTS

The OCC's FY 2021 performance measures, workload indicators, customer service standards, and results are presented in table 28. They respond to the requirements for most agencies to set goals, measure performance, and report the information to Congress as established in the Government Performance and Results Act of 1993 Modernization Act of 2010.

The OCC organizes its programs under three activities: supervise, regulate, and charter banks. In addition, the OCC measures its overall efficiency and effectiveness with an agency-wide indicator. As such, the OCC's priorities focus on strengthening the resiliency of the institutions subject to its jurisdiction through its supervisory and regulatory programs and activities. A stronger and more resilient banking system directly supports four out of five Treasury Department FY 2018–2022 strategic goals: boost U.S. economic growth, promote financial stability, enhance national security, and achieve operational excellence.

TABLE 28: PERFORMANCE MEASURES, WORKLOAD INDICATORS, CUSTOMER SERVICE STANDARDS, AND RESULTS

PERFORMANCE MEASURES, WORKLOAD INDICATORS, AND CUSTOMER SERVICE STANDARDS	FY 2018	FY 2019	FY 2020	2021 TARGET	2021 ACTUAL
Supervise and regulate programs					
Percentage of banks with composite capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk (CAMELS) rating of 1 or 2	96%	96%	99%	90%	99%
Rehabilitated problem banks as a percentage of the problem banks one year ago (CAMELS 3, 4, or 5)	44%	15% [a]	23%	40%	28%
Percentage of banks that are well capitalized	97%	98%	95%	95%	99%
Percentage of banks with consumer compliance rating of 1 or 2. For institutions with assets more than $10 billion, these ratings reflect only those laws and regulations for which the OCC has enforcement and supervisory authority.	98%	98%	98%	94%	98%
Charter program					
Percentage of licensing applications and notices completed within established time frames	97%	99%	98%	95%	98%
Agencywide					
Total OCC costs relative to every $100,000 in assets regulated	$9.12	$8.07	$7.78	$7.37	$6.79

[a] The low percentage is an indicator of a shrinking population base of problem banks in FY 2019.

PAYMENT INTEGRITY

Each year, the Treasury Department provides the OCC with guidance, in accordance with OMB Circular A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," Appendix C, "Requirements for Payment Integrity Improvement," to complete an annual risk assessment of programs and activities to identify those programs susceptible to significant improper payments. In FY 2021, the OCC performed a risk assessment on the following five programs:

- Federal employee payments, including payroll
- Entitlements or benefits (other than payroll)
- Travel card
- Contract payments or invoices
- Purchase card

The results of the agency's risk assessment indicate that none of the OCC's programs or activities are susceptible to significant improper payments at or above thresholds established by the OMB and, therefore, the OCC is not required to determine a statistically valid estimate of improper payments or perform additional reporting on corrective actions or root causes.

ANALYSIS OF OVERPAYMENTS

Overpayments are identified through pre- and post-payment audits, recurring quality control reviews, and other controls, such as vendor reviews before contract award, Treasury pay file reviews, and Do Not Pay (DNP) continuous monitoring efforts. The OCC ensures that effective controls are in place to limit payments to ineligible vendors and to meet the DNP requirements.

The OCC monitors overpayments to increase the likelihood of prompt recovery. The underlying causes and contributing factors are identified quickly, and control measures are implemented to prevent additional overpayments.

In FY 2021, the OCC reported information on identified overpayments to OMB through the Treasury Department. The information reported by the OCC to the Treasury Department is available at https://www.paymentaccuracy.gov/.

Office of the
Comptroller of the Currency

MEMORANDUM

To: Janet Yellen
Secretary of the Treasury

From: Michael J. Hsu
Acting Comptroller of the Currency

Date: October 29, 2021

Subject: FY 2021 Final Unmodified Statement of Assurance of Achievement of Management Control Objectives

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The Office of the Comptroller of the Currency (OCC) is responsible for meeting the objectives of section 2 and section 4 of the Federal Managers' Financial Integrity Act (FMFIA), as well as implementing the requirements of the Federal Financial Management Improvement Act (FFMIA), and the Digital Accountability and Transparency Act. The implementation guidelines related to these acts are included in the internal control requirements of the Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control. The objectives of OMB Circular A-123, including its appendices, are to ensure: (1) alignment of strategic goals with the agency's mission, (2) effective and efficient operations, (3) reliable reporting, and (4) compliance with applicable laws and regulations.

Management is responsible for managing risks and maintaining effective internal control and financial management systems that meet the objectives of the FMFIA. Risk management practices that identify, assess, respond to, and report on risks are taken into account when designing internal controls and assessing their effectiveness. The OCC conducted our assessment of risk and internal controls in accordance with OMB Circular A-123 and OMB Circular A-123, Appendix A, Management of Reporting and Data Integrity Risk. Based on the results of this assessment, the OCC can provide reasonable assurance that our internal controls over strategic, operational, reporting, and compliance objectives were operating effectively as of September 30, 2021.

In addition, the OCC conducted an assessment of our financial management systems in accordance with OMB Circular A-123, Appendix D, Compliance with the FFMIA. Based on the results of this assessment, our financial management systems substantially comply with FFMIA Section 803(a) as of September 30, 2021.

As part of our evaluation process, the OCC considered the results of extensive testing and assessments across the organization and independent audits.

ABBREVIATIONS

AML	anti-money laundering
ASC	Accounting Standards Codification
BSA	Bank Secrecy Act
CAMELS	capital adequacy, asset quality, management, earnings, liquidity,and sensitivity to market risk
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
CBS	Committee on Bank Supervision
CDFI	community development financial institutions
CECL	current expected credit loss
CMP	civil money penalty
CRA	Community Reinvestment Act
CSRS	Civil Service Retirement System
DeFi	decentralized finance
DNP	Do Not Pay
FAQ	frequently asked questions
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
FBWT	Fund Balance With Treasury
FDIC	Federal Deposit Insurance Corporation
FERS	Federal Employees Retirement System
FFIEC	Federal Financial Institutions Examination Council
fintech	financial technology
FSA	federal savings associations
FSOC	Federal Stability Oversight Council
FY	fiscal year
GAAP	generally accepted accounting principles
GAS	Government Account Series
HSSIP	High School Scholars Internship Program
IT	information technology
LIBOR	London Interbank Offered Rate
MCBS	Midsize and Community Bank Supervision
MDI	minority depository institutions
NGFS	Network of Central Banks and Supervisors for Greening the Financial System
NIM	net interest margin
NPR	notice of proposed rulemaking
NRC	National Risk Committee
OCC	Office of the Comptroller of the Currency
OM	Office of Management
OMB	Office of Management and Budget
OPM	U.S. Office of Personnel Management
OTS	Office of Thrift Supervision
PP&E	property, plant, and equipment
REACh	Roundtable for Economic Access and Change
SFFAS	Statement of Federal Financial Accounting Standards
TSP	Thrift Savings Plan

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