

**OFFICE OF
THRIFT SUPERVISION**



**Chief Financial Officers Report
1995 Audited**

March 27, 1996

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Message From the Director

Since its inception in 1989, the OTS has made significant progress in achieving its initial, major objectives: (i) resolve all nonviable institutions; (ii) initiate supervisory and legal action against those who jeopardized the safety and soundness of the industry; and (iii) prepare the industry for the future. As a result, the thrift industry has changed dramatically. In June 1988, there were 3,092 thrifts insured by the Federal Savings and Loan Insurance Corporation, with 632 of these, or 20.4 percent, insolvent. The industry the OTS now supervises is smaller (1,437 institutions as of December 1995), healthier (only 5 undercapitalized thrifts holding aggregate assets of \$670 million) and better capitalized (average equity capital of 8.02 percent as of December 1995).

In spite of the recent success enjoyed by the thrift industry, its federal deposit insurance fund, the Savings Association Insurance Fund (SAIF), remains severely undercapitalized. This raises several issues that could profoundly impact the future of the thrift industry.

BIF/SAIF Assessment Issue

In mid-1995, the Federal Deposit Insurance Corporation (FDIC) approved a new BIF premium rate structure for commercial banks. The new structure eliminated insurance premiums for the best rated banks (which include the vast percentage of the nearly 11,000 BIF-member institutions). The insurance premiums of SAIF-insured thrifts could not be reduced, however, because, unlike the BIF, the SAIF has not reached the 1.25 percent designated reserve ratio statutorily required for each fund. Thus, savings associations pay an average of almost 24 cents in premiums per \$100 of deposits, while most banks pay no premium.

A continued, large premium disparity between banks and savings and loans could have several detrimental effects on the thrift industry. A substantial disparity in insurance costs will adversely impact thrift earnings, thereby lowering the industry's return on assets (ROA) relative to the ROA of BIF-insured commercial banks. A lower return on assets, in turn, will make it more difficult for thrifts to remain competitive with banks on interest rates paid on deposit accounts. The result will be that thrift profits will be squeezed or, to avoid this result, thrifts will take the necessary steps to reduce their reliance on SAIF-insured deposits. Under this latter scenario, thrifts will either restructure their balance sheets to reduce SAIF-insured deposits, or find ways to shift deposit liabilities to less expensive BIF-insured deposits.

Vulnerability of the SAIF

As of December 1995, the SAIF had approximately \$3.4 billion in reserves backing up thrift insured deposits of approximately \$711 billion. This is a reserve ratio of only 0.48 percent, far below the target level of 1.25% set by Congress. At this level of capitalization, the SAIF is extremely vulnerable. Until Congress acts to capitalize the

SAIF and address the BIF/SAIF premium disparity, the SAIF remains exposed to a level of capitalization that Congress itself has deemed inadequate.

FICO Bond Problem

Perhaps the most pressing issue arising from the inadequate capitalization of the SAIF and the BIF/SAIF premium disparity involves the annual interest obligation imposed on the SAIF from the outstanding Financing Corporation (FICO) bonds. The FICO obligation, which arises from bonds floated between 1987-1989 to finance the cleanup of failed thrifts, is also at the heart of the reason why the SAIF is not yet fully capitalized. Currently, more than 67 cents of every thrift premium dollar paid to the SAIF is diverted to cover the annual FICO payment. In fact, FICO bond payments will total approximately \$780 million per year for the next 25 years. Since 1989, approximately \$7.8 billion of the total \$11 billion paid in insurance premiums by the thrift industry have been diverted from the SAIF to pay off the FICO bonds and for other uses. In contrast, all BIF insurance premiums have been used to capitalize the BIF.

Thus, the SAIF problem is largely a FICO problem. Because of the diversion of SAIF premiums, the SAIF has not been capitalized. Because FICO interest payments must continue to be paid from thrift insurance premiums, the prospects for capitalizing the SAIF, and reducing the premium disparity, is remote without legislative action.

Prospects for Legislative Action

Over the past year, most savings institutions have refrained from reducing their SAIF-insured deposits in the expectation that legislation to resolve the SAIF's problems would soon become law. During this time, the OTS, the Federal Deposit Insurance Corporation (FDIC), and the Treasury Department have had extensive meetings with members of the House and Senate Banking Committees in attempting to identify the best way to capitalize the SAIF, and resolve the BIF/SAIF assessment issue and the FICO bond problem. In late 1995, a bipartisan solution was approved by both Houses of Congress as part of the Balanced Budget Reconciliation Act of 1995. The proposal required SAIF-insured institutions to pay a one-time special assessment to fully capitalize the SAIF and it spread future FICO interest payments among all FDIC-insured institutions. Due to provisions in the bill unrelated to the SAIF/FICO solution, however, the bill was vetoed by the President.

Currently, despite general agreement among agency officials and many House and Senate Banking Committee members that the SAIF/FICO proposal remains a viable proposal, the prospects for enactment of the legislation are unclear. This is due, in part, to questions raised by some Banking Committee members on the urgency to resolve the issue and, more significantly, to the lack of a legislative vehicle to which to attach the proposed solution.

Eliminating the Thrift Charter

Notwithstanding the reforms prompted by the thrift crisis and the strong recovery of the thrift industry, there are still some who believe that specialized home lenders, i.e., thrift institutions, may be more failure prone than commercial banks. They argue that today's mortgage markets have become so competitive that specialized portfolio lenders can no longer make adequate profits. They also argue that specialized home lenders are more prone to failure than institutions that hold more diversified portfolios. For these reasons, some advocate elimination of the thrift charter. They reason that if the thrift charter is eliminated, there cannot be another "thrift" crisis. This logic is flawed.

Many of the most profitable savings associations have very high concentrations of home loans. The OTS has reviewed the portfolio composition of savings associations that have a return on assets (ROAs) in the top quartile of all savings associations. We have found that high-performing savings associations tend to hold a greater percentage of their portfolios in residential mortgage assets than the industry as a whole.

The OTS has reviewed and compared thrift and bank performance during the 11-year period 1985-1995, which includes the high point of the thrift crisis (1988-1992). We found that savings associations that held the lowest concentrations of residential mortgage assets (i.e. those with a ratio of mortgage assets to total assets in the lowest quartile) failed at 10 times the rate of savings associations with the highest concentrations of mortgage assets. Savings associations that maintained a high concentration of residential mortgage assets failed at a much lower rate, and cost less to resolve if they did fail, than savings associations that expanded into commercial and consumer lending and other non-traditional thrift activities.

Institutions now operating as thrifts will continue to exist regardless of what they are called. Institutions that now engage in profitable and well-run mortgage operations will have little incentive to vary from that business strategy even if they are forced to become banks.

Only those thrift institutions seeking charter flexibility outside the confines of traditional mortgage lending would benefit from becoming banks. A thrift converting to a commercial bank must become familiar with a new set of statutory and regulatory requirements. Internal systems must be modified to conform to the financial reporting format of its new regulator. Beyond these expenses are all the other costs associated with restructuring an institution's business to conform to the rules governing its new charter.

OTS supports efforts to modernize both the bank and thrift charters. In many ways, some features of the thrift charter may provide the flexibility that many analysts believe the commercial banks need to remain competitive. The Federal government must

continue its efforts to craft legislative initiatives, consistent with safety and soundness, that will ensure that depository institutions can continue to serve the changing needs of their customers.

Conclusion

I believe that the proposed solution to the SAIF/FICO problem that was hammered out over many months between Congress, Treasury, the FDIC and OTS, and the various trade groups representing the thrift and banking industries remains the best approach to resolving the problem. The OTS urges Congress to pass legislation similar to that proposal as expeditiously as possible in order to avoid the inevitable drain of deposits from America's thrift institutions. After these issues have been resolved, the federal banking agencies can then work with Congress to address the larger issues surrounding thrift and bank powers and charter issues.

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Jonathan L. Fiechter
Acting Director

PROFILE OF THE OFFICE OF THRIFT SUPERVISION

The Office of Thrift Supervision (OTS) was established as an office of the Department of the Treasury on August 9, 1989, by the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA). OTS is headed by a Director who is appointed by the President, with Senate confirmation, for a 5-year term. The Director also serves on the boards of the Federal Deposit Insurance Corporation (FDIC) and the Neighborhood Reinvestment Corporation. In addition, he currently serves as Chairman of the Federal Financial Institutions Examination Council.

OTS MISSION

The mission of the OTS is to effectively and efficiently supervise thrift institutions to maintain the safety and soundness and viability of the industry, and to support the industry's efforts to meet housing and other community credit and financial services needs.

STATUTORY AUTHORITY

OTS' primary statutory authority is the Home Owners' Loan Act (HOLA) as amended by FIRREA. Under HOLA, the OTS is responsible for chartering, examining, supervising, and regulating federal savings associations and federal savings banks. HOLA also authorizes the OTS to examine, supervise, and regulate state chartered savings associations belonging to the Savings Association Insurance Fund (SAIF) and provide for the registration, examination, and regulation of savings association affiliates and holding companies.

ORGANIZATION

To carry out its mission, the OTS is organized as follows (a summary organization chart is attached):

- The Director determines policy for the OTS and makes final decisions on regulations, policies and administrative adjudications governing the thrift industry as a whole and on measures affecting individual institutions.
- The Office of Supervision develops regulations, directives and other policies to ensure the safe and sound operation of savings institutions as well as their compliance with federal laws and regulations and processes all corporate applications. It oversees the direct examination and supervision of savings institutions by regulatory staff in the five regions and responds to consumer and discrimination complaints against savings associations.

- The Office of Administration directs policy development for administrative operations including contracting and procurement, training, human resources, automated data processing, telecommunications, and financial management. Administration is also responsible for implementing the requirements of the Chief Financial Officers Act, the Federal Managers' Financial Integrity Act, the Government Performance and Results Act and all required records/ information management programs. The Executive Director of Administration serves as the Chief Financial Officer.
- The Office of Chief Counsel provides a full range of legal services to the Director, OTS and other agency staff including providing effective and timely legal advice and opinions on regulatory and administrative matters, drafting regulations, advising on transactional matters, representing the OTS in court, and the prosecution of enforcement actions related to thrift institutions and institution-affiliated parties.
- The Office of External Affairs communicates information concerning OTS regulations, policies and key developments within the agency to the thrift industry, the public, government agencies and other key constituencies. External Affairs also maintains a liaison between OTS and Congress and the Federal Deposit Insurance Corporation.
- The Office of Research and Analysis collects and analyzes thrift industry and general economic data. It tracks and reports on the financial condition of the thrift industry, assesses savings associations' interest rate risk exposure and conducts research related to the thrift industry and housing markets.

1995 ACCOMPLISHMENTS

One of the ways in which the OTS seeks to achieve its mission is through the effective examination and supervision of thrifts. Through the examination process, the OTS identifies violations of law and regulation and potential financial problems. During 1995 the OTS Regional Office staff conducted 2,421 examinations including 1,055 safety and soundness, 726 compliance, 451 holding company, 159 electronic data processing and 30 trust examinations. The examination process helps to increase the awareness of both thrift managers and the OTS staff to potentially risky ventures, alerts the OTS to unsafe and unsound practices, and encourages thrift management to focus on community reinvestment issues. In addition, the examination process helps to further identify and decide a course of action for institutions that are not maintaining their capital at adequate levels.

OTS' Enforcement staff utilizes its enforcement powers to advance the agency's supervisory mission of maintaining a safe and sound thrift industry. Thus, during 1995,

OTS' enforcement program issued 32 supervisory agreements, 50 removal and prohibition orders, 50 cease and desist orders, and 29 civil money penalties.

During 1995 the OTS analyzed 4,048 applications and either approved or denied these applications in accordance with current OTS rules, regulations and policies. The major types of applications analyzed included 1) election of officers and directors, 2) holding company, 3) acquisitions by a bank holding company or a commercial bank, 4) conversion to either a state-chartered institution, a commercial bank or a national bank, 5) conversions by commercial banks to a thrift charter and acquisitions of banks by a thrift, 6) stock conversions, and 7) mergers. Approximately 97.1 percent of these applications were processed within the established time frames.

The thrift industry's health has improved over the last five years. At year-end 1990, there were 450 troubled thrifts (CAMEL ratings of "4" or "5"); as of December, 1995 the number of troubled thrifts had declined to 41, a 90 percent decrease (the Examination section of this Report contains a discussion on CAMEL ratings). For the year ending December 1995, two institutions with assets totaling \$447 million were removed from the private sector via transfer to the Resolution Trust Corporation (RTC); both institutions were immediately resolved through the Accelerated Resolution Program. As of December 1995, there were no insolvent thrift institutions remaining in the private sector.

Community Affairs Program

In December 1993, the OTS established the Community Affairs program designed to affirmatively encourage and support thrifts' efforts to comply with the Community Reinvestment Act and, more specifically, to help meet the credit needs of low and moderate income individuals and communities. The program also focuses on ensuring that thrifts' community reinvestment activities are conducted in a safe and sound manner.

The objectives of OTS' Community Affairs Program include:

- Acting as liaison between the OTS, the industry, community groups, government agencies and others on community development matters.
- Providing education and technical assistance on community development matters.
- Identifying and addressing regulatory barriers, and safety and soundness issues related to community development activities.

Over the past two years, the Community Affairs Liaisons have established relationships with hundreds of community groups, thrifts, government agencies and others involved in community development efforts; worked one-on-one with over one hundred institutions on specific community development problems or initiatives; provided forums

for thrifts to meet with local community groups and residents to talk about credit and housing needs and to tour their neighborhoods; co-sponsored industry training sessions on various community development topics; provided training to OTS examination staff; addressed a number of regulatory barrier and investment authority issues; provided policy guidance to the industry; developed a newsletter highlighting current issues and community development initiatives of thrifts around the country; and worked to address specific safety and soundness issues related to community development lending and investments.

ASSESSMENTS

FIRREA granted to the OTS the authority to fund its operations through periodic assessments charged to the thrift industry. The current Assessment Regulation was developed in 1990. This regulation establishes assessment rates based on each thrift institution's CAMEL rating (a supervisory rating of safety and soundness) and its total assets. The establishment of standard and premium rates is based on two premises: 1) larger institutions cost less to regulate/supervise per asset dollar; and 2) institutions with poor CAMEL ratings cost more to regulate/supervise per asset dollar.

Assessments constitute the largest component in OTS' income; in 1995 assessments comprised 87.2 percent of total income. The OTS also receives funds from application fees, interest, recovery of enforcement expenses, rental leases and other miscellaneous sources.

Since the establishment of the OTS in 1989, the thrift industry has experienced a dramatic decline in the number of institutions and the level of industry assets. In December 1989 there were 2,898 thrift institutions holding \$1,288 billion in unconsolidated assets (the OTS did not start calculating consolidated assets until March 1990). By December 1995 the thrift industry had declined to 1,437 institutions holding \$771 billion in consolidated assets; a 50 percent reduction in the number of institutions, and a 40 percent reduction in the dollar value of assets.

Due to the shrinkage of the thrift industry, income from assessments has declined substantially. In 1990, assessments totaled \$265.8 million; in 1995 this figure had fallen to \$136.3 million, a decrease of 48.7 percent in five years.

CONTINUING FINANCIAL CHALLENGES

The OTS receives no appropriated funds. In 1995, over 92.1 percent of OTS' operating revenue was derived from the thrift industry that it regulates which includes both assessment and application fee income.

Due to the continuing decrease in assessment revenue, OTS staff and operating expenses have been cut. The OTS budget has been reduced from \$295 million in 1990

to \$170 million in 1995, or by 42.4 percent. The OTS staff has been trimmed from 3,379 as of October 1989, to 1,463 as of December 1995, or by 56.7 percent.

Even if Congress passes legislation to resolve the most pressing problems facing the savings and loan industry today: 1) the premium disparity between the Savings Association Insurance Fund and the Bank Insurance Fund, and 2) funding for the FICO bonds, OTS supervised thrifts are projected to decline by approximately 263 institutions between December 1995 and December 1997. As a result, assessment income is projected to decrease to \$128.5 million or approximately 5.7 percent less than it was during 1995. If Congress does not pass the SAIF/FICO legislation, the number of OTS supervised thrifts could decline even further.



Office of Thrift Supervision

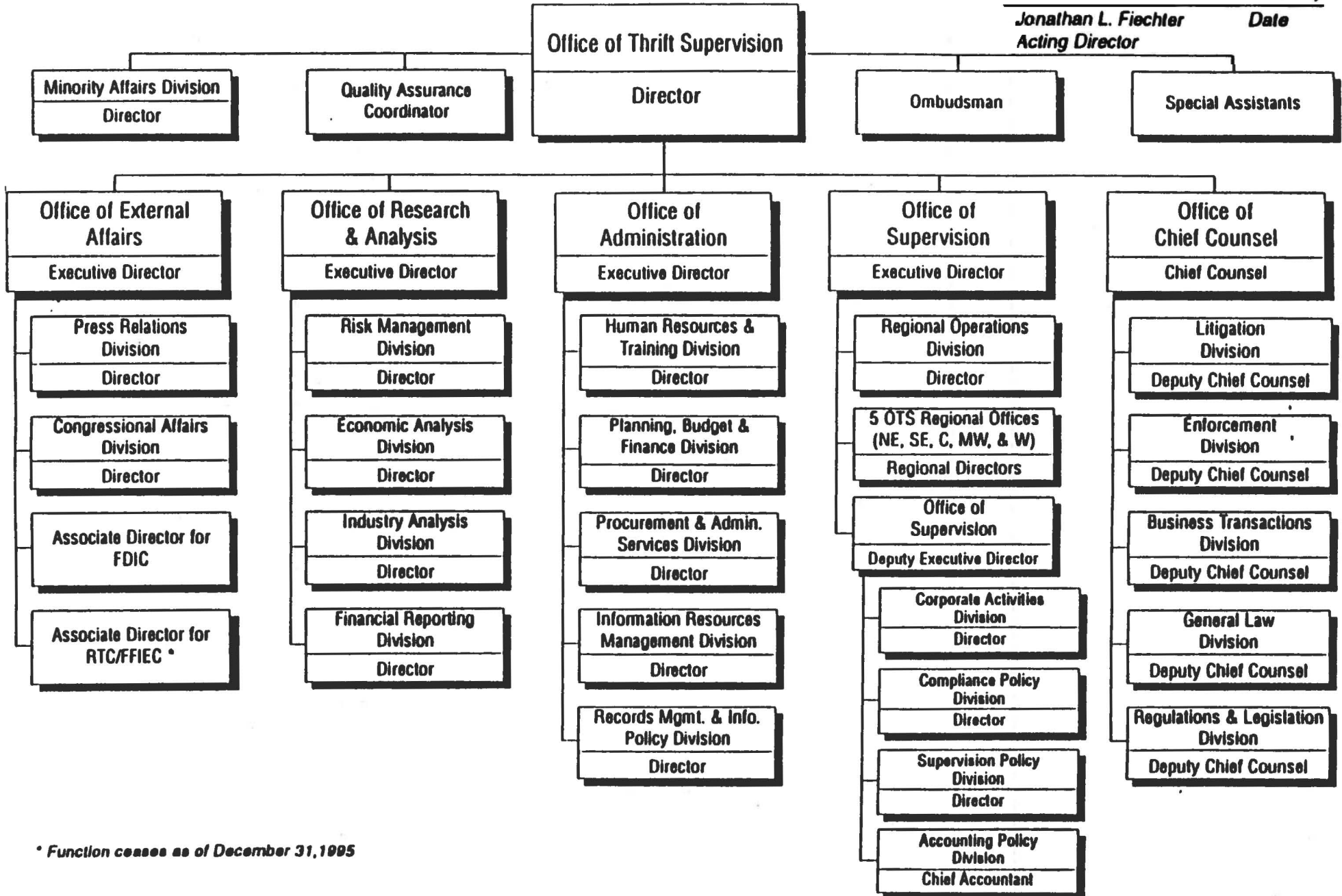
ORGANIZATIONAL STRUCTURE

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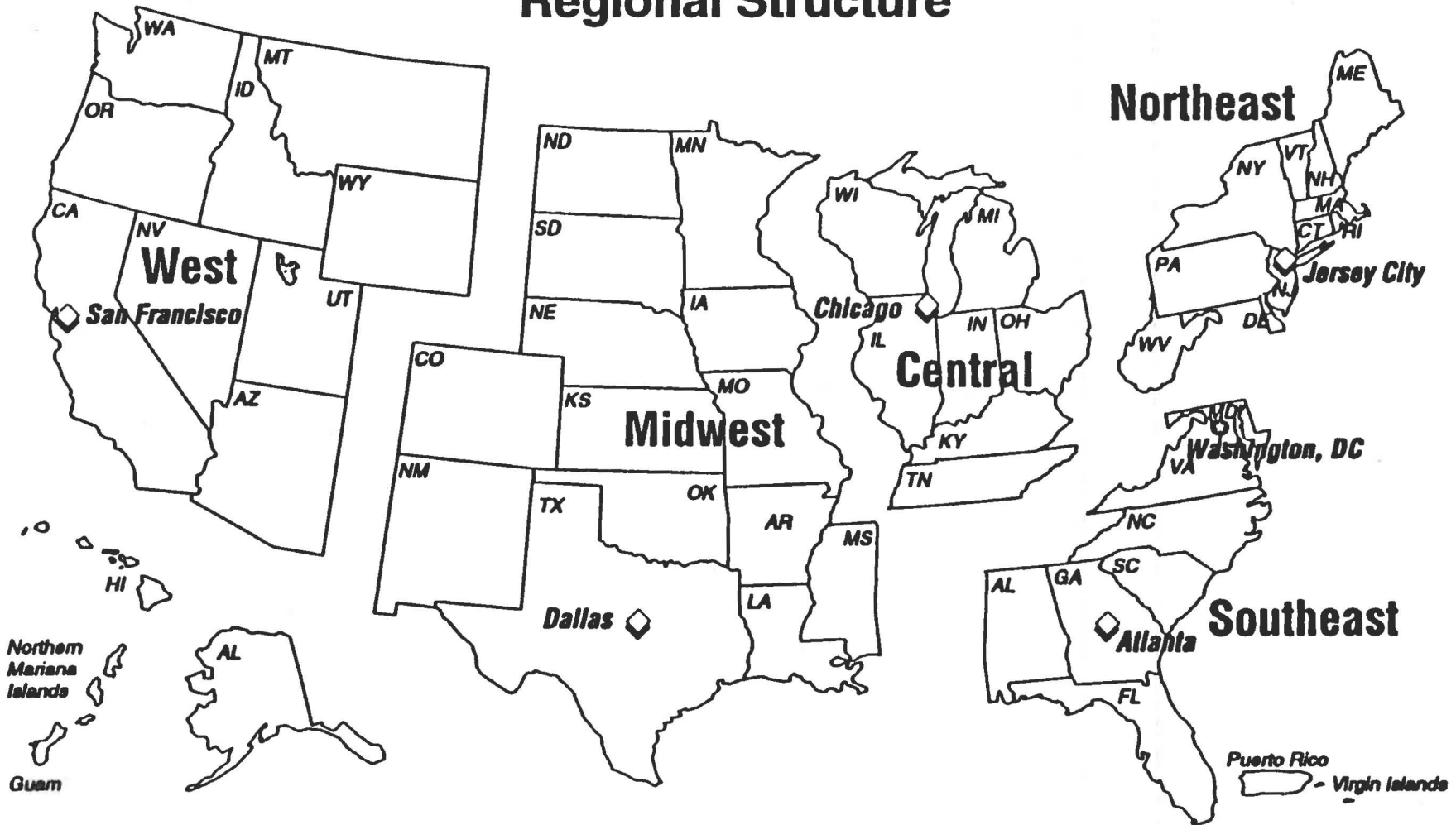
Jonathan L. Fiechter
Acting Director

Date



* Function ceases as of December 31, 1995

Office of Thrift Supervision Regional Structure



Southeast Region – includes Puerto Rico and the Virgin Islands

West Region – includes Alaska, Hawaii, Guam and the Northern Mariana Islands

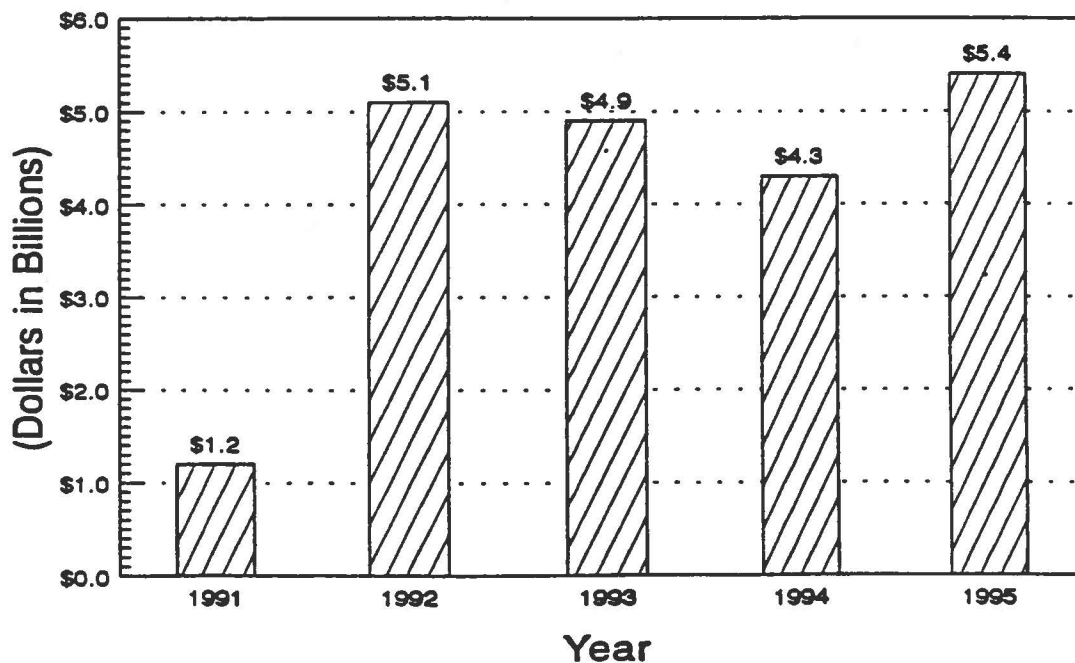
PROGRAM HIGHLIGHTS

Since its inception in 1989, the OTS has completed the cleanup of the thrift industry. In June 1988, 3,092 thrifts were insured by the Federal Savings and Loan Insurance Corporation (FSLIC) and 632 of them, or 20.4 percent, were insolvent. By December 1995 the number of private sector thrifts (those thrifts not in conservatorship or receivership or pursuing a plan of self liquidation) had declined to 1,437, a decrease of 1,655 thrifts or 53.5 percent, and none were insolvent.

Under the Prompt Corrective Action provisions of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), there are now five categories of depository institutions based on their capital levels – well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. As of December 1995, 99.5 percent of the private sector thrifts regulated by the OTS were adequately or well-capitalized and these thrifts held 99.8 percent of the private-sector industry assets.

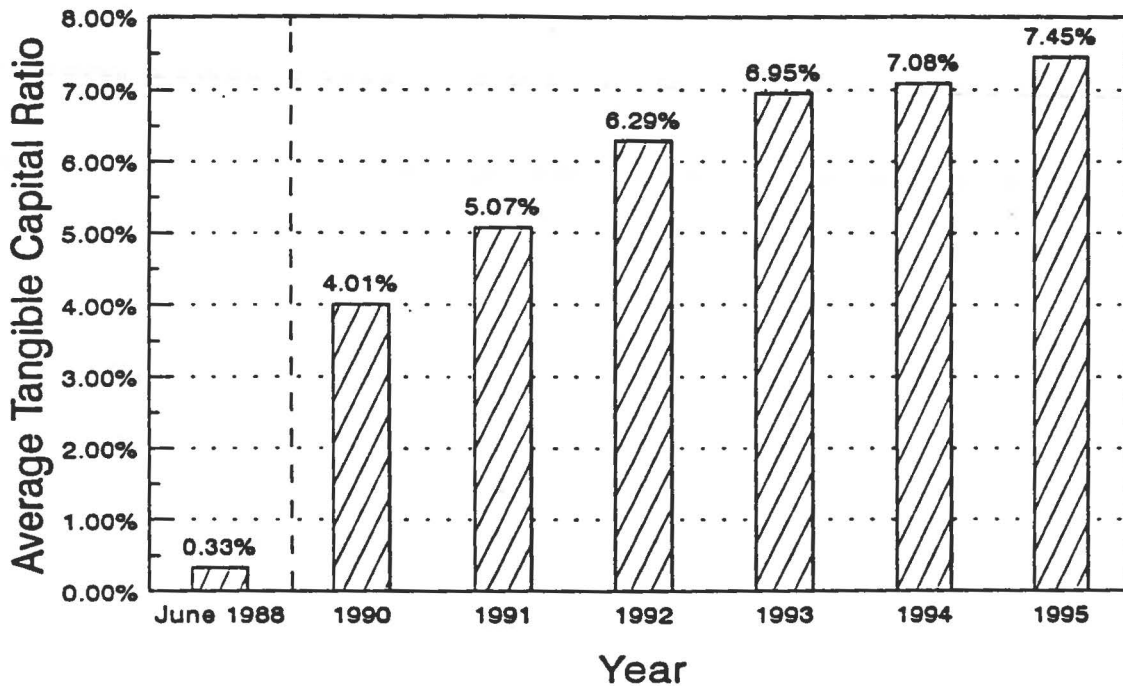
By December 1995, the nation's thrift industry had enjoyed twenty consecutive profitable quarters. In 1991 and 1992, the OTS regulated, SAIF insured thrift industry earned \$1.2 billion and \$5.1 billion, respectively. During 1993 and 1994, the OTS regulated industry earned \$4.9 billion and \$4.3 billion, respectively; during 1995 it earned \$5.4 billion.

Annual Profits of the OTS Regulated Thrift Industry (1991 - 1995)



As of December 1995, the thrift industry had an average tangible capital ratio of 7.45 percent, a significant increase from the .33 percent ratio as of June 1988.

Average Tangible Capital Ratio of the OTS Regulated Thrift Industry (1990 - 1995)



Continued consolidation and shrinkage of the thrift industry appear likely. OTS projects that, assuming the BIF/SAIF differential issue is satisfactorily resolved during 1996, by year-end 1997 a smaller thrift industry comprised of approximately 1,174 institutions with as much as \$803 billion in assets will exist (projection based on November 1995 asset projection using September 1995 data).

PROGRAM PERFORMANCE

EXAMINATION AND SUPERVISION PROGRAM

The mission of the Examination staff is to effectively and efficiently supervise thrift institutions regulated by the OTS; maintain the safety and soundness and viability of the industry; and support the industry's efforts to meet housing and other community credit and financial services needs. Supervision provides uniform standards for planning and conducting on-site examinations of the day-to-day operations of a thrift and focuses on ensuring the safety, soundness, and continuing viability of the thrift industry, as well as compliance with applicable laws and regulations.

Through the examination process, OTS identifies existing violations of laws and regulations and potential financial and economic problems. The examination process assists in preventing the development or continuation of unsafe operating policies and practices and effects timely resolution of identified problems or weaknesses including fair lending violations and community reinvestment weaknesses. In making a Community Reinvestment Act (CRA) assessment of a savings association, the OTS uses the uniform inter-agency rating system and guidelines for public disclosure of written CRA performance evaluations that were adopted in 1990 as a result of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. The examiners follow the most recent interagency procedures for evaluating CRA performance.

Examination and supervision responsibilities are divided among five regional offices located in Jersey City, New Jersey; Atlanta, Georgia; Chicago, Illinois; Dallas, Texas; and San Francisco, California, with several small area offices for examination report preparation. Each region is managed by a Regional Director who reports directly to the Executive Director, Supervision, located in Washington D.C. The Regional staff had an authorized 1995 budget of \$81.2 million while the Washington office budget totaled \$4.6 million. The Regional staff was comprised of 1,035 employees as of December 31, 1995.

Supervision's goals for 1995 were and continue to be:

- Enhance the examination process: i.e., improve the value of examinations to thrift institution directors and management, improve consistency of examinations, enhance examination documentation procedures, and improve coordination with State and FDIC examiners.

- Ensure that regulatory policy provides flexibility and latitude to sufficiently capitalized and well-managed institutions, but ensures close supervision of marginal and problem institutions.
- Focus on identifying and addressing current and emerging risks in the industry (interest rate risk, derivatives, new products, etc.)
- Encourage institutions' efforts to meet the housing needs of their communities, particularly the needs of low to moderate income persons, through the elimination of regulatory barriers.
- Improve the effectiveness of the CRA and fair lending examination process.
- Discourage discriminatory lending practices in the industry through better education, clearer guidance to the industry, enhanced examination detection techniques, and enforcement of Equal Credit Opportunity Act (ECOA) laws.
- Reduce regulatory burden through better coordination with other banking regulatory agencies and through implementation of the regulatory relief provisions of the Community Development Banking Act.

PROGRAM ACCOMPLISHMENTS FOR 1995

- Conducted risk-focused Safety and Soundness, Compliance, Electronic Data Processing, Trust, Holding Company, and Conservatorship examinations according to the established examination programs and schedules.
- Initiated timely and effective enforcement activities for troubled institutions within 60 days of the date the examination report was completed.
- Achieved the 1995 year-end staffing targets set for examination-related personnel.
- Continued to communicate with community groups and promote awareness of affordable housing issues for OTS staff and the industry through community affairs liaisons established in every region in the fourth quarter of 1993.

1995 OBJECTIVES OF THE EXAMINATIONS PROGRAM

During 1991, the OTS adopted the policy of annual examinations for all thrift institutions. Effective September 1, 1993, the OTS revised its safety and soundness examination policy to comply with Section 111 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA). Effective November 1, 1994, OTS again revised its safety and soundness examination policy to comply with the Riegle Community Development and Regulatory Improvement Act of 1994, which requires

annual examinations for all institutions except certain small, highly rated thrifts. The objective of this strategy is to determine the overall safety and soundness of each institution and to ensure the accuracy of performance ratings.

To accomplish the 1995 examination objective, the OTS concentrated its resources on high-risk institutions and on high-risk activities within institutions. Each examination addressed the specific areas that might threaten the overall safety and soundness of the institution. In addition, the OTS determined the number of days and people required for the on-site examination on the basis of the size and performance rating of an institution.

During 1995, the OTS continued its risk-focused approach for its specialty examination programs. These examination programs include: compliance with consumer and community reinvestment laws; electronic data processing procedures; trust operations; and holding company operations.

The OTS administers its CRA responsibilities through the compliance examination. During compliance examinations, OTS examiners assess each institution's record of meeting the credit needs of its community and assigns a CRA rating. The OTS considers CRA performance when evaluating applications by savings associations for expansion or restructuring. The compliance examination program uses specially trained examiners to conduct compliance-specific examinations. These examiners receive training in the laws and regulations dealing with fair lending and CRA and OTS' implementing regulations for other consumer protection laws.

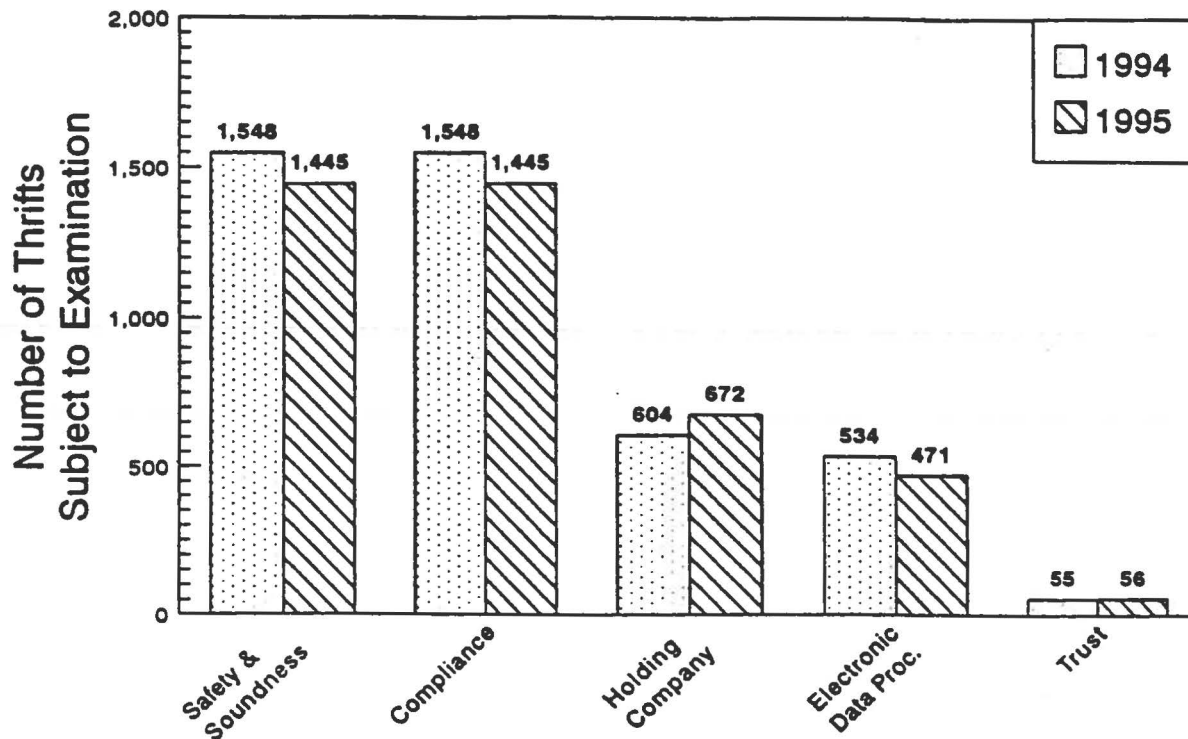
First Objective:

Conduct examinations of all thrift institutions scheduled to receive such examinations.

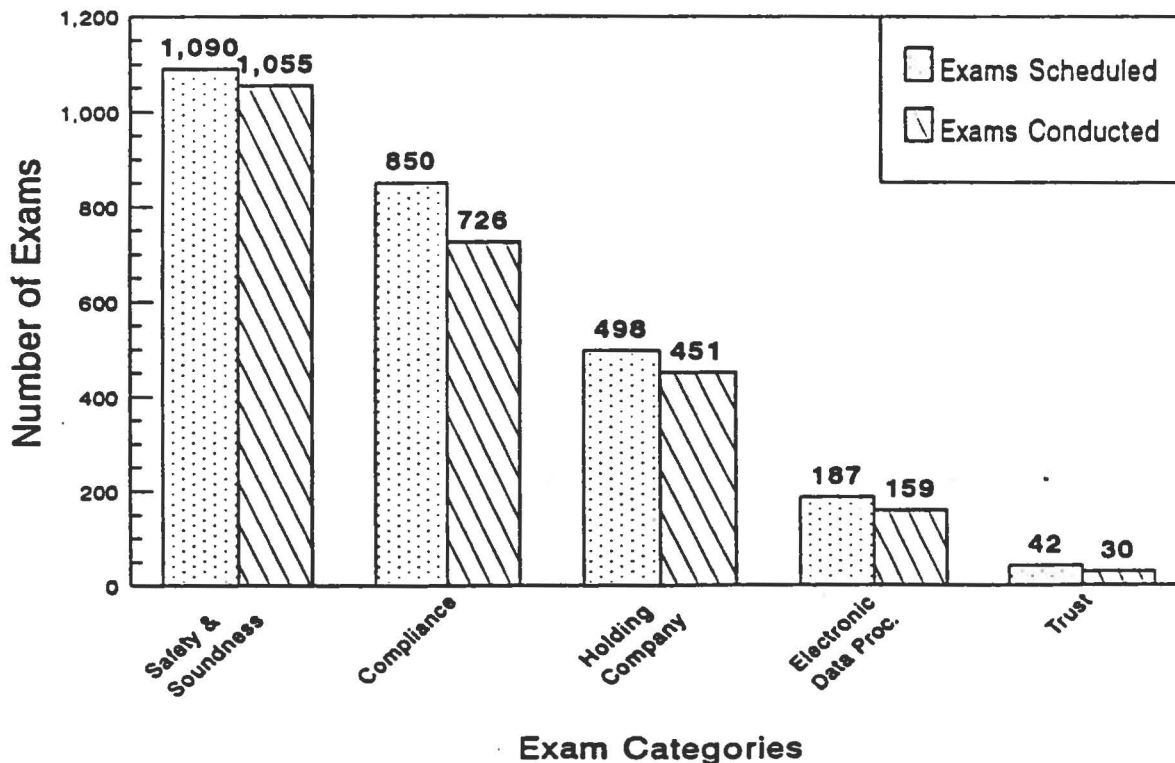
Performance Measure:

The charts on the next page present the number of thrifts which received each type of examination compared with the number of thrifts scheduled to receive this type of examination.

Number of OTS Regulated Thrifts Subject to each Exam Category at Year End (1994 - 1995)



1995 Exams Conducted Compared With Exams Scheduled



The number of exams scheduled does not equal the number of institutions in each exam category (shown in the previous chart) because the OTS is not required to examine every institution every year. The exam schedule depends on the size, financial condition and rating of each institution.

Level of 1995 Success:

As can be seen by the charts on the previous page, OTS' examinations staff was successful in meeting the schedule for safety and soundness examinations. The three percent shortfall in this category can be attributed to a management decision not to examine a small number of thrifts that were scheduled to convert to a bank charter or otherwise exit our regulatory purview. The Holding Company Examinations conducted totaled just 91 percent of those scheduled because OTS continued to integrate holding company examinations with safety and soundness examinations.

The most significant accomplishment in the Compliance category was implementation of interagency revisions to CRA regulations to make them a more objective, performance-based system of evaluation. Throughout 1995, we continued to add compliance examination staff to keep pace with increasing complexity and workloads. It should also be noted that the majority of overdue EDP examinations are for multi-data Processing Services (MDPS) and that these exams are conducted jointly with the staffs of the other banking regulatory agencies. Thus, scheduling MDPS examinations is often beyond the control of OTS.

Second Objective:

Supervision must recommend enforcement action or a waiver of enforcement action within 60 days of the examination report transmittal for thrifts with CAMEL ratings of 4 or 5. The CAMEL system is similar to the CAMEL rating system used by the Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC) for describing the condition of banks. The OTS adopted the CAMEL system on April 1, 1994. Using the CAMEL system (an acronym for Capital Adequacy, Asset Quality, Management, Earnings and Liquidity/Risk Management), OTS classifies thrifts into three categories:

- Institutions with CAMEL ratings of 1 or 2 are the healthiest thrifts;
- Institutions with CAMEL ratings of 3 are thrifts experiencing some difficulties but their overall strength makes their failure unlikely;
- Institutions with CAMEL ratings of 4 or 5 are troubled thrifts and present the highest degree of concern.

Performance Measure:

Enforcement actions or waivers must be in place within 60 days of the transmittal date of the examination for 100 percent of all thrifts with CAMEL ratings of 4 or 5.

Level of 1995 Success:

OTS initiated appropriate enforcement action, or documented the cause for not taking action (waiver), for all thrifts with CAMEL ratings of 4 or 5 or with similar adverse specialty examination ratings. As of December 31, 1995, our data base reflected only one exception to our 60-day standard for all CAMEL 4 and 5 rated institutions.

Third Objective:

Continue to optimize the regional organization structure within existing budget constraints.

Performance Measures:

Actual cost/budgeted cost for exam-related functions should not exceed 100 percent.

Actual cost/budgeted cost for other functions should not exceed 100 percent.

Level of 1995 Success:

Supervision exceeded its goals in 1995 by implementing cost savings that reduced projected expenses below the authorized 1995 budget. The approved 1995 budget for both exam and non-exam related functions was \$85.8 million; actual expenses totaled only 97 percent of the annual budget. Savings were largely achieved by reducing the regional staff below authorized levels and continued lease reductions.

The approved budget for examination-related functions in 1995 was \$81.2 million; actual expenses totaled 97 percent of the budgeted amount or \$79.1 million. The approved budget for all other Supervision functions was \$4.6 million; actual expenses totaled just 92 percent of the budgeted amount or \$4.2 million.

In January 1995, the regional offices' staff level totaled 1,171 employees; the end-of-year staffing level target was 1,041. Through staffing reductions, the actual 1995 year end staff level in the regional offices was 1,035. This 12 percent reduction was managed by a combination of voluntary and involuntary separations.

Staff committed to thrift examinations and related functions totaled 77 percent of total staff at 12/31/95 (69 percent were classified as examiners and 8 percent were directly related to the examination function). Thus, the budgeted costs for examination related staff met the projected 1995 budget for these items. Supervision will continue to look at ways to reduce its budget.

Fourth Objective:

In the fourth quarter of 1994, OTS implemented a customer service plan for examinations. This plan was distributed to all thrift institutions and established a set of quantifiable customer service standards that the agency's performance could be measured against, such as:

- Ensure all examination advance packages are mailed to institutions at least four weeks prior to the start of an examination;
- Provide each institution with an estimate of examination staffing levels and the time required to conduct the examination;
- Conduct an examination entrance meeting with institution management on the first day of an examination;
- Meet at least weekly with institution personnel during an examination to convey issues, concerns, and examination findings;
- Conduct an exit meeting to summarize key findings, make recommendations, and receive and consider management's responses; and
- Process and transmit the examination report within 30 days for "1" and "2" rated institutions and within 45 days for all others.

To assess performance under the Customer Service Plan, the OTS sends each institution a survey questionnaire shortly after each examination.

Performance Measure:

Supervision should strive for a 100 percent satisfaction rating from customer survey responses under the customer service plan for examinations.

Level of 1995 Success:

During 1995, survey responses indicated that, overall, OTS has been able to successfully meet or exceed the published customer service standards 92 percent of the time. Although we were pleased to receive such high marks from our customers, responses do indicate that we have room for improvement.

APPLICATIONS PROGRAM

OTS regulations require thrift institutions to file an application before engaging in certain activities. Most applications are reviewed and acted upon at the OTS' five Regional Offices. Certain complex transactions and those containing issues of policy or law, however, are reviewed and acted upon in Washington.

MISSION

The mission of the applications program is to ensure that applications are processed within established timeframes and that application decisions are consistent with current OTS regulations and policies.

All applications, unless eligible for expedited treatment, should be processed to a decision within 60 days from the date they are deemed complete. Expedited applications should be processed to a decision within 30 days from the date they are deemed complete. Applications eligible for expedited treatment include establishment of a finance subsidiary, higher lending limitations, issuance of subordinated debt or mandatorily redeemable preferred stock, securities brokerage activities, charter conversion to a commercial, national or state-chartered savings bank, acquisition/merger by a commercial bank or bank holding company and establishment or change of location of branch offices.

First Objective:

Meet the application processing timeframes except when an application contains an issue of law or policy or otherwise requires an extension of the time frame for OTS to complete its analysis. Applications with permissible exceptions should be completed as quickly as is feasible.

Performance Measure:

The number of decisions made within the standard or expedited timeframes divided by the total number of completed applications equals the total percentage of applications that were processed within the application processing timeframes. Due to OTS' recent downsizing, the goal is the historical success in this area.

Level of 1995 Success:

During 1995, the OTS processed 4,048 applications. Of these, 3,929 or 97.1 percent were completed within the standard or expedited timeframes specified above. One hundred nineteen applications were removed from timeframe constraints due to the issuance of extension of time letters and fourteen applications did not meet these timeframes due to the issuance of law or policy letters.

The OTS issues an extension of time letter when its reviewing offices need additional time to analyze a transaction due to unresolved opinions on a pertinent factor of the transaction, to review the recommendation of another agency, or when heavy workloads do not permit one of the offices involved to complete its review and analysis within established timeframes. Extension of time letters must be issued within 10 days prior to, and must not extend for more than 30 days beyond, the automatic approval date. In rare instances, applications containing precedential issues of policy or law may also be removed from timeframe constraints. In these cases, letters extending processing timeframes may be issued up to the automatic approval date and do not place time restrictions on OTS actions.

The 105 applications on which extension of time letters were issued were completed, on average, in 70 calendar days. The 11 applications that did not meet the specified timeframes due to issues of law or policy were completed, on average, in 100 calendar days. There are 3 applications, filed in 1995, with issues of law or policy that remain pending.

Second Objective:

Save money for individual thrift institutions by establishing expedited application processing procedures for healthy institutions, and by reviewing the applications fee schedule and reducing fees, when appropriate, to reflect processing costs.

Performance Measure:

The dollars saved during the year as a result of the expedited processing procedures enacted on June 30, 1992, divided by the number of expedited applications processed equals the average dollars saved per expedited application. Due to OTS' recent downsizing, the goal is the historical success in this area.

Level of 1995 Success:

The OTS estimates that approximately \$1 million was saved by the thrift industry during 1995 as a result of the expedited processing procedures. This savings resulted from thrift institutions filing applications under expedited processing procedures which have less cumbersome information requirements and lower filing fees than standard

processing procedures. During 1995, the OTS approved 689 expedited applications and notices, or 17 percent of total applications processed, which equates to an average savings of \$1,451 per expedited application. During 1994, the OTS approved 341 expedited applications and notices with a resultant savings to applicants of approximately \$508,500. Thus during 1994, an average of \$1,491 was saved per expedited application.

Third Objective:

Increase the delegation of application decisions to the Regional Offices as appropriate.

Performance Measure:

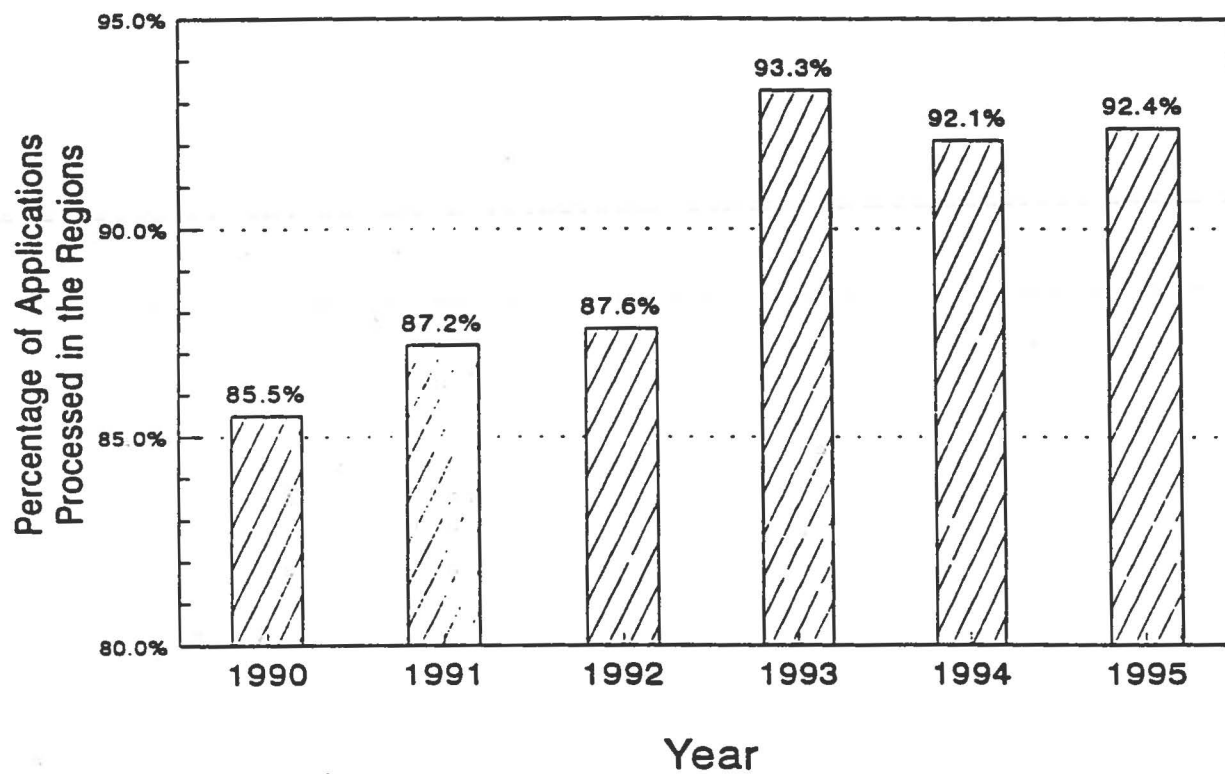
The total number of applications processed in the field in 1995 divided by the total number of applications processed by OTS equals the percentage of applications processed in the field. Due to OTS' recent downsizing, the goal is the historical success in this area.

Level of 1995 Success:

Of the total 4,048 applications processed by the OTS' applications divisions during 1995, 3,742 or 92.4 percent were processed by the Regional Offices. The remainder (306) were processed and acted on by the Corporate Activities Division ("CAD") in Washington.

OTS' continuing success in delegating applications to the field is demonstrated by the fact that 85.5 percent, 87.2 percent, 87.6 percent, 93.3 percent and 92.1 percent of total applications were processed in the Regional Offices during 1990, 1991, 1992, 1993 and 1994, respectively (see chart on next page). The slight decrease from 1993 to 1994 resulted from the high volume of stock conversion and mutual holding company activity during 1994. On September 26, 1995, additional application decisions were delegated to the Regional Offices.

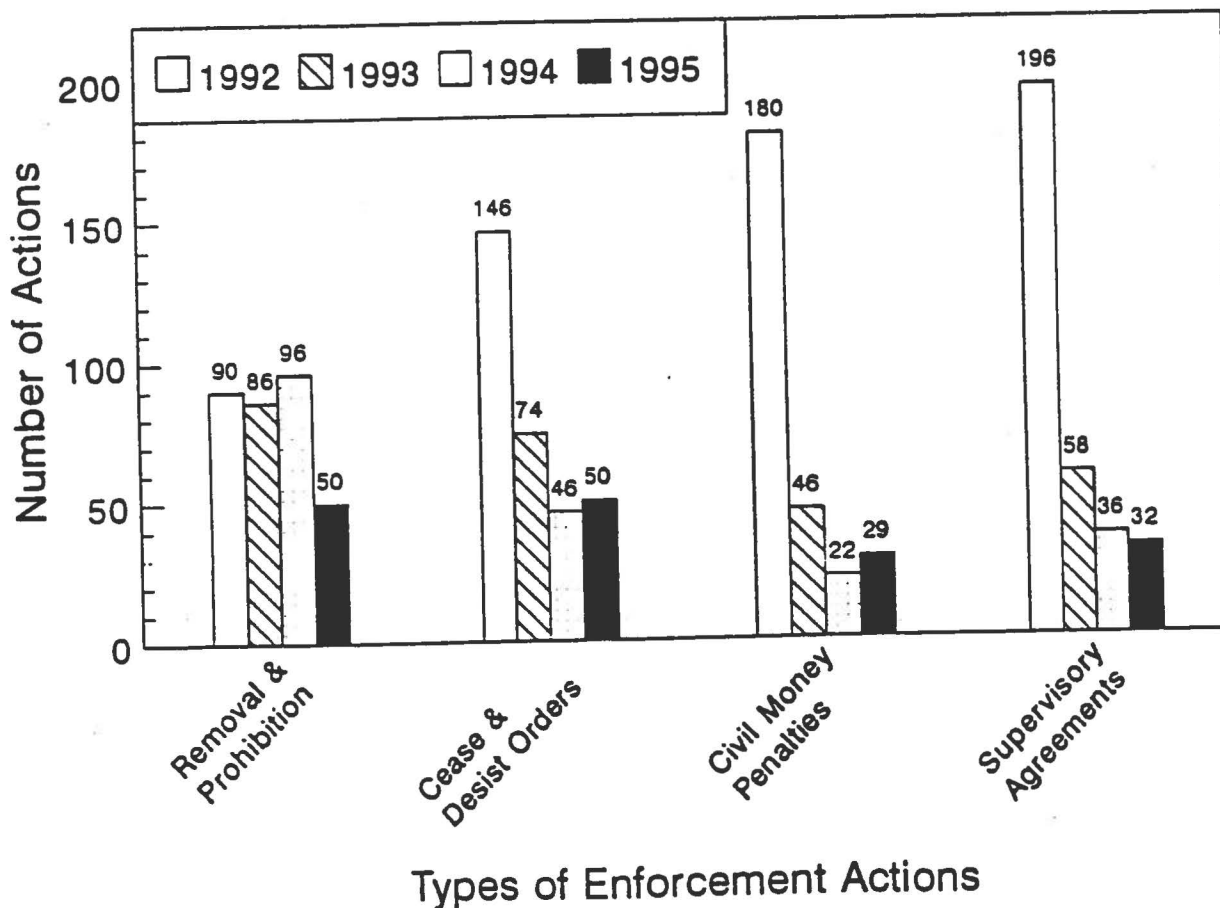
Percentage of Applications Processed in the Regional Offices



ENFORCEMENT PROGRAM

OTS employs its enforcement powers to advance the agency's supervisory mission of maintaining a safe and sound thrift industry. The renewed health of the industry with its improved capital position and increased profits has meant few thrift failures. This has resulted in a shift in enforcement activity away from ascertaining the causes of failures. Most new enforcement cases focus on assisting supervisory efforts to monitor the practices of open institutions. The following chart provides an accounting of the agency's enforcement efforts resolved by formal means and shows a continued decline in the total number of enforcement actions that have been occurring since 1992.

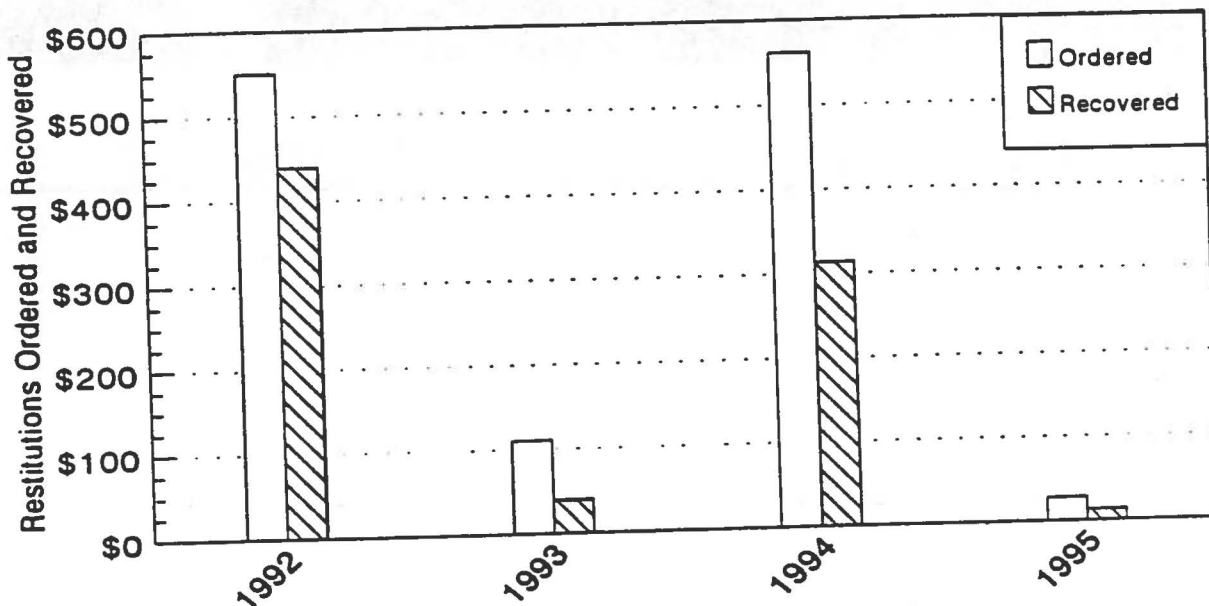
Enforcement Statistics 1992 - 1995



The vast majority of formal examinations initiated in 1994 and 1995 (80 percent and 88 percent respectively) concern open institutions. As we focus increasingly on open institutions, the pipeline of cases generated by the savings and loan crisis continues to decline markedly. The number of investigations of closed institutions initiated during the first three years of OTS' existence that remain on OTS' docket at year end 1995 is 22 percent fewer than at year-end 1994 (36 cases were open at year-end 1994 compared with 28 at year-end 1995).

With the decline of enforcement cases attributable to the egregious conduct of the 1980s that precipitated many expensive thrift failures, there has been a concomitant decline in the dollar amount of recoveries. For instance, together with the RTC and the FDIC, the OTS settled two cases in 1994 against accounting firms that resulted in approximately \$500 million in restitution. The remaining cases are of a lesser magnitude with smaller potential recoveries and reduced actual settlement values. The following two tables reveal this trend in connection with both restitution and civil money penalty orders.

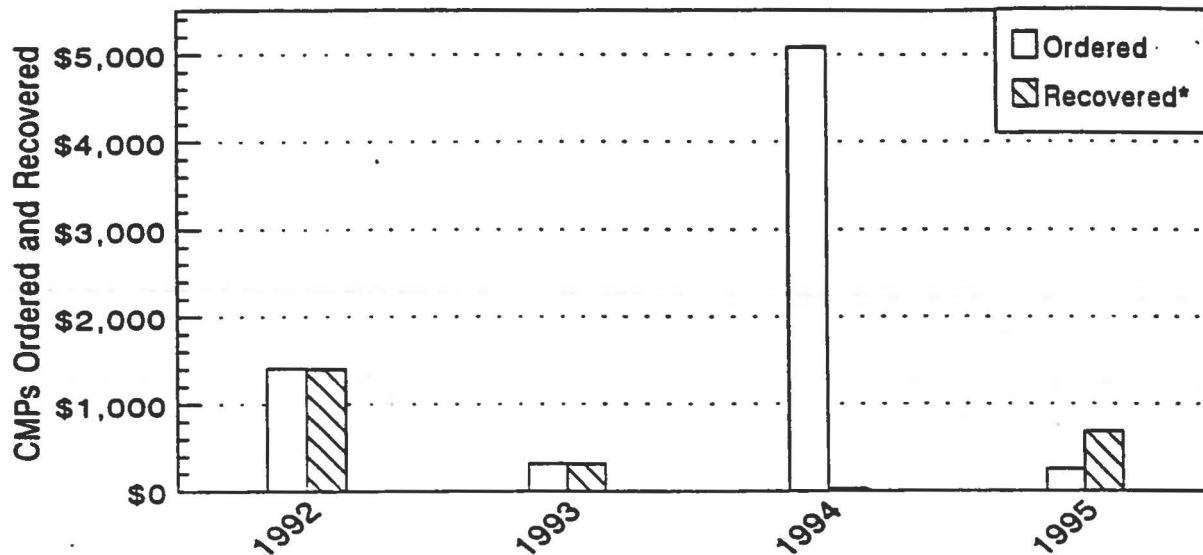
Restitutions Ordered and Recovered 1992 - 1995 (Dollars in Millions)



Ordered	\$550.4	\$110.8	\$561.8	\$27.6
Recovered	\$439.7	\$39.8	\$313.4	\$13.3

Civil Money Penalties Ordered and Recovered 1992 - 1995

(Dollars in Thousands)



Ordered	\$1,412	\$315	\$5,080	\$251
Recovered*	\$1,400	\$312	\$24	\$683

*Amounts recovered in a given year may have been ordered in a prior year. The amount ordered in 1994 includes a CMP assessment of \$4.86 million for one case which has not been paid.

It is difficult to develop an objective measure that shows with any degree of accuracy the success of OTS in meeting its enforcement objectives. For several years, the Enforcement Program has used a performance measure based upon dollar recoveries per FTE. Such a measurement can never be a precise gauge of the effectiveness of OTS' enforcement work because its benefit extends well beyond the recovery of money. As a result, no single standard will show whether the agency is using its enforcement resources efficiently. In the past, we noted that if restitution and civil money penalty recoveries drop below \$100,000 per FTE, then the agency should review whether it is directing its enforcement resources appropriately. Despite the decline in enforcement activities, OTS' recoveries in 1995 remained well above this threshold. In addition, as an adjunct to OTS' supervisory mission, enforcement activity can be expected to reflect the general trends of manpower utilization witnessed by the agency as it regulated a financially healthier industry with fewer institutions. From year end 1994 to year end 1995, Enforcement staffing declined by 21 percent compared with a 14 percent decline in OTS' staff in general.

FINANCIAL HIGHLIGHTS

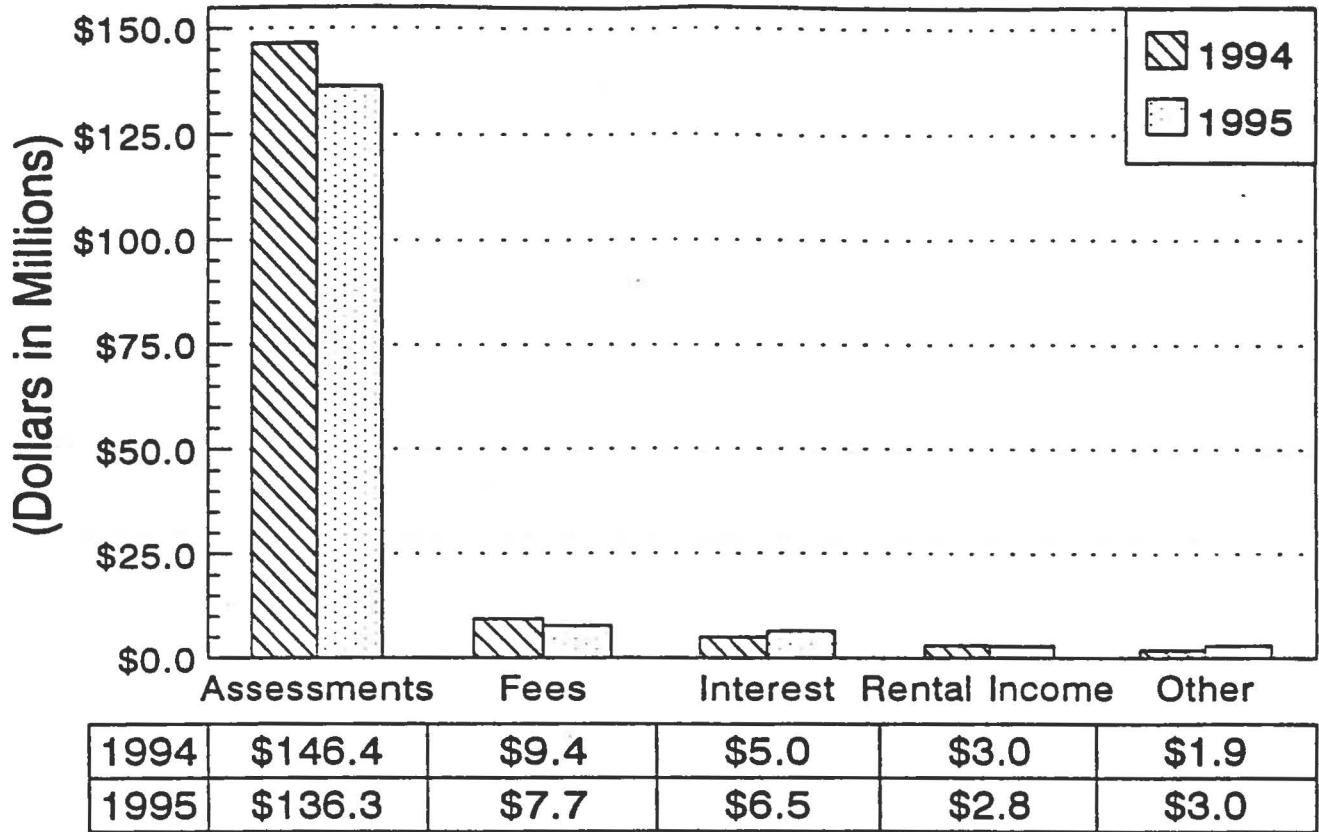
OTS reports its financial statements on a calendar year basis. The accompanying unaudited statements summarize the OTS' financial position as of December 31, 1995 including the costs of its operations and all significant sources and uses of funds during 1994 and 1995.

As shown in the accompanying financial statements, OTS' total capital increased from \$112.2 million at year end 1994 to \$121.8 million at year end 1995, a \$9.6 million increase. The increase in total capital is a result of OTS' net operating gain during 1995.

REVENUE AND EXPENSES

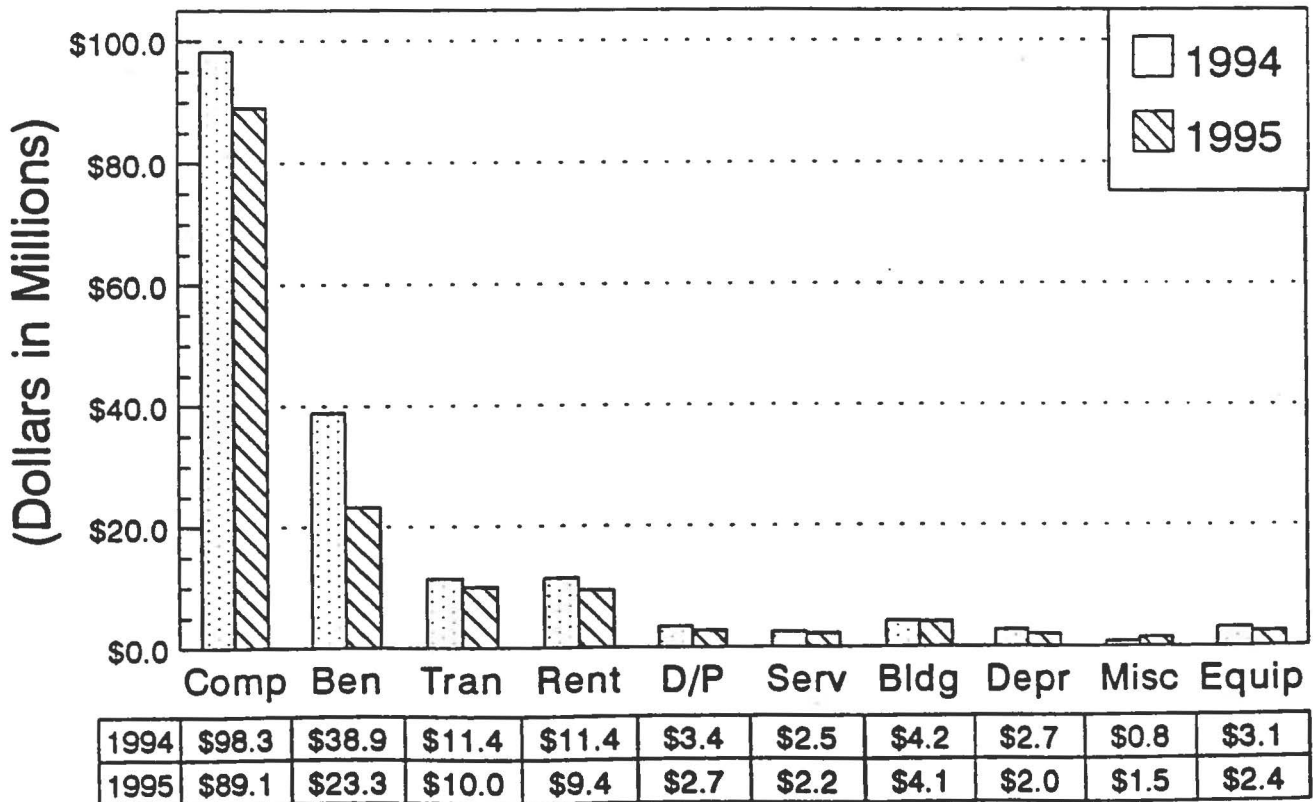
Operating expenses decreased from \$176.7 million in 1994 to \$146.7 million in 1995, a drop of \$30.0 million; revenue declined from \$165.7 million to \$156.3 million, a decline of \$9.4 million (see charts on the following pages).

OTS Revenue; 1994 and 1995



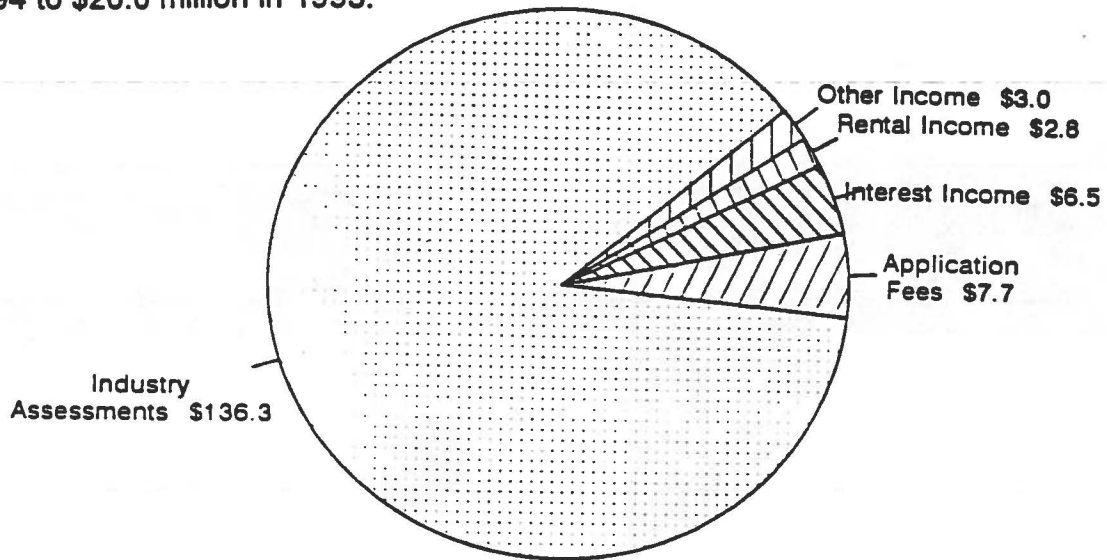
Total: 1994 - \$165.7; 1995 - \$156.3

OTS Operating Expenses; 1994 and 1995



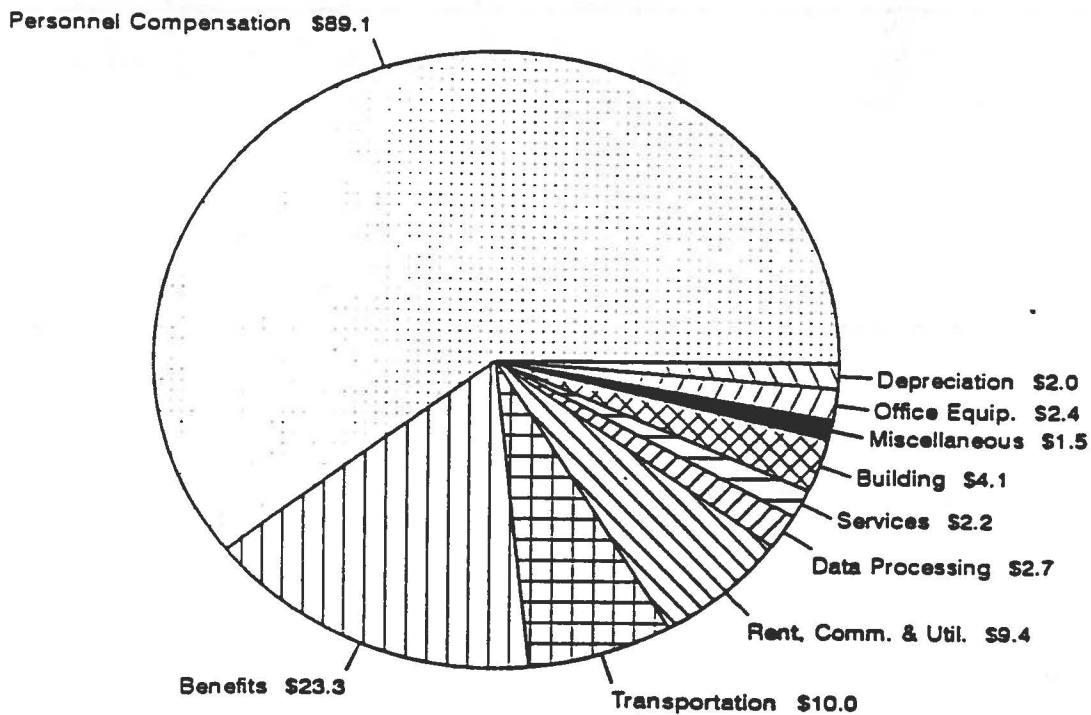
Total: 1994 - \$176.7; 1995 - \$146.7

The drop in OTS' revenue is principally due to the continuing shrinkage of the thrift industry. As shown below, the OTS received 87.2 percent of its 1995 revenue from assessment fees. As the number of thrift institutions declines and the assets held by the remaining institutions decrease, OTS' revenue will continue to fall. Thrift industry assessment revenue dropped from \$146.4 million in 1994 to \$136.3 million in 1995, a 6.9 percent decrease. Other income producing items including application/security filing fees, interest, rental income, and other income, increased slightly from \$19.3 million in 1994 to \$20.0 million in 1995.



Total Revenue = \$156.3 Million

The following chart shows 1995 operating expenses by major cost categories. As can be seen by the chart, expenses for personnel compensation and benefits comprised 76.7 percent of OTS' total operating expenses in 1995.

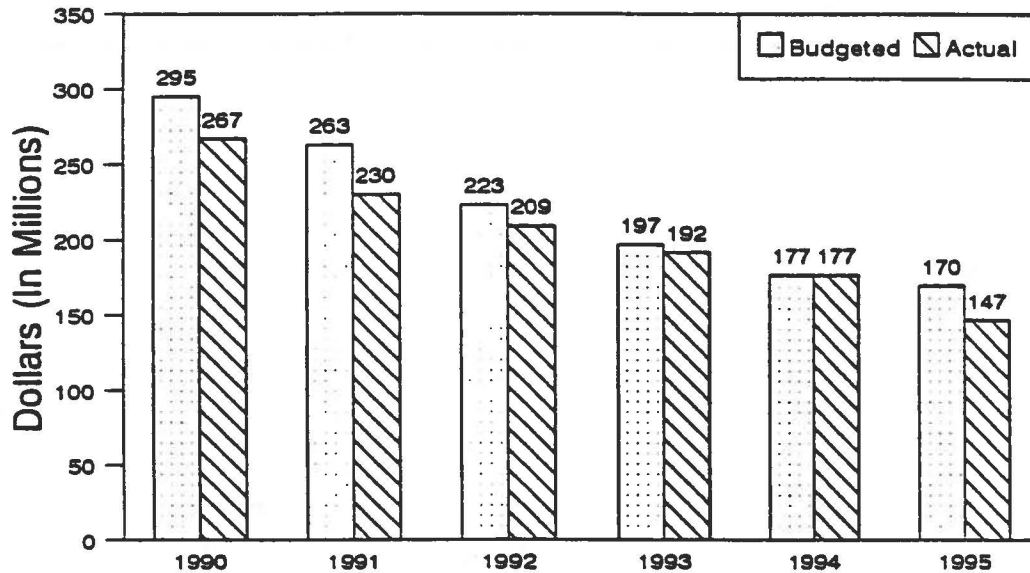


Total Operating Expenses = \$146.7 Million

BUDGETARY RESOURCES

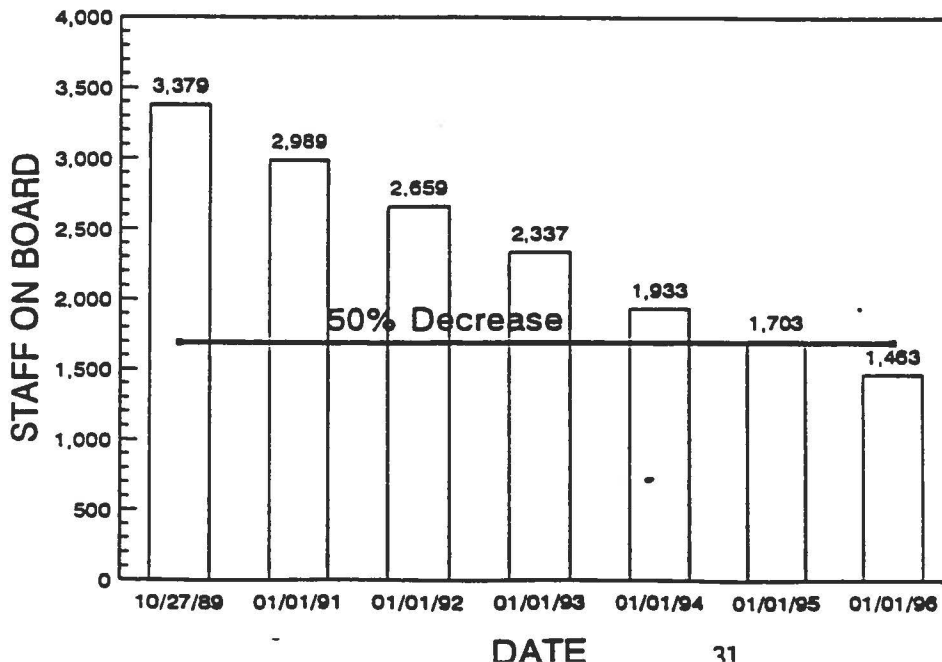
As shown in the chart below, OTS' operating expenses have consistently been lower than the authorized budget for that year except during 1994 when the authorized budget and operating expenses were equivalent. In addition, as the chart indicates, OTS' operating expenses have decreased from \$267 million in 1990 to \$147 million in 1995, or by 45 percent.

Budgeted Expenses Compared With Actual Operating Expenses



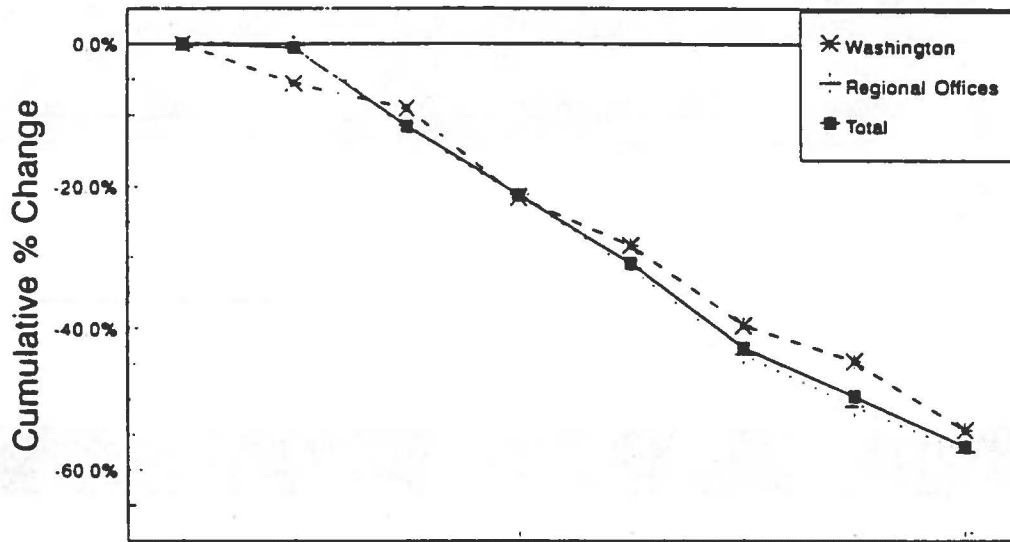
As shown below, OTS has reduced its staff from 3,379 employees as of October 1989 to 1,463 at year-end 1995, a 56.7 percent decrease.

STAFF SIZE



The following chart shows that as of year-end 1995 OTS' Regional Office staff had declined by 57.4 percent while the Washington Office staff had declined by 54.4%. OTS will continue to downscale its staff size during in the coming years if necessary.

Cumulative Decline in Staffing Washington and Regional Offices



	10/21/89	10/21/89- 12/16/89	10/21/89- 12/29/90	10/21/89- 12/14/91	10/21/89- 12/26/92	10/21/89- 12/25/93	10/21/89- 12/24/94	10/21/89- 12/23/95
Washington	0.0%	-5.6%	-9.0%	-21.5%	-28.3%	-39.6%	-44.7%	-54.4%
Regional Offices	0.0%	0.9%	-12.3%	-21.1%	-31.6%	-43.7%	-51.0%	-57.4%
Total	0.0%	-0.6%	-11.5%	-21.2%	-30.8%	-42.8%	-49.6%	-56.7%

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL PERFORMANCE

The OTS' Executive Director, Administration, is assigned the responsibility of coordinating the activities required for implementation of the Chief Financial Officers Act within the OTS. The functions of accounting, financial planning and analysis, budgeting, administration of the Federal Managers' Financial Integrity Act of 1982 (FMFIA), procurement, payroll, travel, and personnel administration are all centralized under the Executive Director, Administration.

The OTS seeks to comply with applicable accounting and internal control principles. OTS' transactions are reported on an accrual basis in accordance with Generally Accepted Accounting Principles. The bureau's Planning, Budget and Finance Division continually reviews new Statements of Financial Accounting Standards and modifies accounting policy, procedures and reporting as needed. The Division's Policy and Procedures Manual reflects current regulations and internal standards governing accounting, payroll, and travel processing. The manual was first issued in August 1991 and is revised annually to incorporate the latest policy and regulation changes.

FMFIA mandated the establishment of agency internal control programs and regular evaluations of management controls and accounting systems to protect Federal programs from fraud, waste and abuse. The OTS maintains strong internal controls, comprehensive financial management controls, personnel security controls, computer security, and strong asset accountability programs.

In accordance with the CFO Act, the OTS has developed a Five-Year Financial Management Plan. This Plan addresses the current status of financial management, summarizes accomplishments, and presents an overview of planned financial management initiatives. Most of the major milestones required by the CFO Act to be addressed in the Five Year Plan, including audited financial statements and integrated financial management information systems, were achieved by the OTS prior to the law's enactment. This is a result of management foresight and an organizational focus on efficient, cost-effective operations.

The Prompt Payment Act and OMB Circular A-125 focus on improving the timeliness of payments from government agencies to the private sector. OMB defines "on time" as "those payments made 23 to 30 days after receipt, earlier payments where discounts were taken, and earlier payments made in accordance with management guidance." OTS has been successful in its efforts to increase the number of timely payments. During fiscal year 1995, only 9 of OTS' 5,690 payments were paid early (0.16 percent) and only 122 were paid late (2.1 percent); this compares with 41 percent made early and 6.1 percent made late during fiscal year 1991.

The OTS maintains budgetary integrity through the continual oversight and monitoring of its annual budget. Generated reports allow the budget staff to regularly analyze the status of all accounts, review all expenditures, and make recommendations to senior management regarding potential savings and/or possible overages in the various accounts.

OTS manages its assets and cash successfully. The automated system for managing and disposing of property, including capitalized and non-capitalized furniture, fixtures and equipment was recently expanded nationally. Annual inventories are taken and the records updated. Items no longer needed are surplused to GSA. The Furniture, Fixtures and Equipment System is maintained to ensure that it remains an effective control mechanism. Approximately 63 percent of OTS' assets are held as cash or cash equivalents. Another 27 percent of its assets are the OTS-owned land and building used in Washington, D.C., and the furniture and equipment used throughout the bureau. OTS holds cash or cash equivalent assets in U.S. Treasury securities, but also has a money market account with the Federal Home Loan Bank of Des Moines. During 1995 the OTS made the following improvements to its cash management program: 1) completed implementation of the OTS-wide use of GELCO to process travel expense reports; 2) implemented the FEDTAX program to electronically file tax forms with the IRS; 3) expanded the vendor express program to allow electronic payments for vendors who provide regular goods and services to the OTS; and 4) a new electronic reporting process was developed to feed OTS Trial Balance data to the Treasury Information Executive Repository (TIER) system.

The foundation of OTS' financial management control program is its annual financial statement audit. The 1995 audit was conducted by the independent, certified public accounting firm of Brown & Company with technical oversight provided by the Office of Inspector General. The audit was completed in late March 1996. For the sixth consecutive year, the OTS was given an unqualified opinion on its financial statements.

FINANCIAL MANAGEMENT SYSTEMS INITIATIVES

CURRENT STATUS OF FINANCIAL MANAGEMENT SYSTEMS

OTS uses an off-the-shelf accounting system purchased from Computer Data Systems, Inc., as the key component of its financial management system. The primary accounting system operates on a calendar-year basis and integrates the procurement, budget execution, accounts payable, accounts receivable, general ledger and financial reporting functions. It is also directly interfaced with the payroll/personnel system.

OTS also provides financial cross-servicing to the Federal Maritime Commission, the Federal Housing Finance Board and the Office of Financial Institutions Adjudication in the payroll, procurement and accounting areas.

OTS' financial management systems currently produce accurate, relevant, timely and useful information. Financial reports and budget variance reports are provided to senior management on a monthly basis to assist in decision making. Additionally, the financial management systems meet OMB, Treasury and GAO requirements.

1995 ACCOMPLISHMENTS

Although the OTS financial management systems are constantly undergoing minor changes to improve financial reporting and efficiency, no major system overhauls are anticipated. During 1995, several improvements were made including the following:

- The new Family Friendly and Family Medical leave fields were automated.
- Payment for OTS parking was converted from a cash payment to an automatic payroll deduction that included the implementation of new tax provisions.
- The retiree billing system was overhauled due to the removal of the OTS health insurance plan.
- The savings bond program was rewritten to make it easier to maintain.
- Electronic time and attendance reporting was implemented agency-wide.
- A new electronic reporting process was developed to feed OTS Trial Balance data to the Treasury Information Executive Repository (TIER) system. This system enables main Treasury to run combined reports from all the bureaus automatically.

- The 1099 form processing was rewritten in response to an audit finding. The 1099 designation was reviewed for all OTS vendors and the system was modified to include additional edits for the entry of this information.
- The assessment billing system was updated automating the processing of manual bills for mergers.
- Implementation of OTS-wide use of GELCO to process travel expense reports including training by Financial Operations staff was completed. Surveyed GELCO users to solicit suggestions for changes to make GELCO reports more useful; numerous revisions to the reports were implemented.

FEDERAL MANAGER'S FINANCIAL INTEGRITY ACT (FMFIA) PROGRAM SUMMARY

INTERNAL CONTROLS

OIG-95-079, Audited CY 1994 Financial Statements of OTS, conducted in compliance with the Chief Financial Officers' Act, did not identify any material nonconformances within the financial management area of OTS. In addition, neither the auditor's evaluation of internal control structure nor the management and quality assurance reviews conducted during the year identified any material weaknesses. Annual evaluations of programs, operations and functions were completed during the fourth quarter of the fiscal year as required by law. These reviews did identify two areas of concern:

- The Net Portfolio Value Model (NPV), used to measure the interest rate risk of approximately 1,400 savings associations each quarter, may be in jeopardy if staff responsible for managing the model leave the agency. OTS is addressing this problem by 1) transferring the system to a code monitoring system that will protect the integrity of the basic production model, and 2) documenting the NPV Model in accordance with OTS software documentation standards.
- A peer review and one review by the Departmental Procurement Office recommended several areas for improvement, including more attention to maintaining required procurement documentation. OTS is currently implementing corrective actions in this area.

During FY 1995, OTS provided in-house training to 17 managers and staff who were scheduled to conduct program reviews for the first time, and, as in previous years, OTS continues to provide one-on-one and small-group training throughout the review planning stage.

OTS is currently evaluating the program to streamline the review and reporting process while maintaining program integrity. As a first step in streamlining our process, OTS has developed a statement which is currently being used by regional managers to certify that their programs, operations and functions comply with the GAO standards specified in the revised OMB Circular A-123.

FINANCIAL STATEMENTS

The attached audited financial statements have been prepared to report the financial position, results of operations, cash flows, and budget and actual operating expenses of the Office of Thrift Supervision, pursuant to the requirements of the CFO Act of 1990.

**U.S. DEPARTMENT OF TREASURY,
OFFICE OF THRIFT SUPERVISION
AUDITOR REPORTS AND FINANCIAL STATEMENTS**

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**INDEPENDENT AUDITOR'S REPORT ON
FINANCIAL STATEMENTS
December 31, 1995 and 1994**



BROWN & COMPANY

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

The Inspector General,
U.S. Department of Treasury

We have audited the accompanying statement of financial position of the U.S. Department of Treasury, Office of Thrift Supervision (OTS) as of December 31, 1995, and the related statements of operations and changes in net position, cash flows, and budget and actual operating expenses for the year then ended. These financial statements are the responsibility of OTS' management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of OTS as of December 31, 1994, were audited by other auditors whose report dated March 24, 1995, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of the Office of Management and Budget (OMB) Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OTS as of December 31, 1995, and the results of its operations, its cash flows, and its budget and actual operating expenses for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued reports dated February 28, 1996, on our consideration of OTS' internal control structure and on its compliance with laws and regulations.

Our audit was conducted for the purpose of forming an opinion on the principal financial statements described above. We have inspected the financial information presented in the accompanying Financial Highlights and Management's Discussion and Analysis of Financial Performance. The information presented in the Financial Highlights and Management's Discussion and Analysis of Financial Performance is presented for the purposes of additional analysis. Such information has not been audited by us and, accordingly we do not express our opinion on this information.

Bureau & Company

Arlington, Virginia
February 28, 1996

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**U.S. DEPARTMENT OF TREASURY,
OFFICE OF THRIFT SUPERVISION
STATEMENTS OF FINANCIAL POSITION
December 31, 1995 and 1994
(in thousands)**

	1995	1994
ASSETS		
Entity Assets:		
Intragovernmental assets:		
Fund balance with Treasury and cash equivalents	\$ 38,785	\$ 37,961
Investments held to maturity	55,145	54,871
Accounts receivable	202	489
Interest receivable	1,340	1,232
Governmental assets:		
Accounts receivable, less allowance for uncollectable accounts of \$83,730 for 1995 and \$83,000 for 1994	910	991
Advances and prepayments	10,957	12,845
Property and equipment, net	41,047	42,864
Other assets	1,644	1,673
TOTAL ENTITY ASSETS	\$ 150,030	\$ 152,926
LIABILITIES AND NET POSITION		
Liabilities Covered By Budgetary Resources:		
Intragovernmental liabilities:		
Due to Office of Personnel Management, post-retirement liability	\$ 0	\$ 10,993
Other accrued liabilities	1,554	998
Governmental liabilities:		
Accounts payable	1,259	777
Deferred compensation liability	1,575	1,874
Deferred rent credit	2,522	2,637
Other accrued liabilities	6,555	9,786
Total Liabilities Covered By Budgetary Resources	13,465	27,065
Liabilities Not Covered By Budgetary Resources:		
Governmental liabilities:		
Accrued annual leave	7,887	8,109
Accrued workers' compensation	3,294	3,233
Post-retirement benefit liability	3,554	2,341
Total liabilities not covered by budgetary resources	14,735	13,683
Total Liabilities	28,200	40,748
Net Position		
Balances:		
Assumed capital	41,037	41,037
Retained earnings	80,793	71,141
Total Net Position	121,830	112,178
TOTAL LIABILITIES AND NET POSITION	\$ 150,030	\$ 152,926

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to financial statements.

U.S. DEPARTMENT OF TREASURY,
OFFICE OF THRIFT SUPERVISION
STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION
Years Ended December 31, 1995 and 1994
(in thousands)

	<u>1995</u>	<u>1994</u>
REVENUE AND FINANCING SOURCES		
Industry assessments	\$ 136,310	\$ 146,429
Applications and security filing fees	7,699	9,355
Interest	6,554	5,003
Rental income	2,779	3,009
Other	2,969	1,924
Total Revenues and Financing Sources	<u>156,311</u>	<u>165,720</u>
EXPENSES		
Personnel compensation	89,104	98,341
Benefits	23,325	38,864
Rent, communication and utilities	9,408	11,396
Travel and transportation	9,977	11,370
Services	2,136	2,551
Data Processing	2,701	3,376
Building expenditures	4,140	4,185
Office equipment and software	2,383	3,062
Miscellaneous	1,559	929
Depreciation	1,926	2,658
Total operating expenses	<u>146,659</u>	<u>176,732</u>
Gain (loss) from operations, before gain on settlement of Post Retirement Benefits - Health Insurance	9,652	(11,012)
Gain on Settlement of Post Retirement Benefits - Health Insurance	<u>0</u>	<u>16,694</u>
EXCESS OF REVENUE AND FINANCING SOURCES AND GAINS OVER EXPENSES	9,652	5,682
NET POSITION, beginning balance	<u>112,178</u>	<u>106,496</u>
NET POSITION, ending balance	<u>\$ 121,830</u>	<u>\$ 112,178</u>

These financial statements should be read only in connection with
the accompanying summary of significant accounting policies
and notes to financial statements.

U.S. DEPARTMENT OF TREASURY,
OFFICE OF THRIFT SUPERVISION
STATEMENTS OF CASH FLOWS
Years Ended December 31, 1995 and 1994
(in thousands)

	<u>1995</u>	<u>1994</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenue and financing sources over total expenses	\$ 9,652	\$ 5,682
Adjustments affecting cash flow:		
Decrease (increase) in accounts receivable	368	(39)
Decrease (increase) in other assets	1,882	(3,684)
(Decrease) increase in due to OPM	(10,993)	10,993
Increase in accounts payable	482	189
(Decrease) increase in other liabilities	(3,089)	2,845
Increase in unfunded liabilities	1,052	3,125
Gain on settlement of post-retirement benefits - health insurance	0	(16,694)
Amortization of bond discount	(73)	(63)
Depreciation	1,926	2,658
Loss on disposal of equipment	<u>428</u>	<u>87</u>
 Net cash provided by operating activities	 <u>1,635</u>	 <u>5,099</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investment securities	(270)	(54,808)
Purchases of property, plant and equipment	<u>(541)</u>	<u>(1,644)</u>
 Net cash used by investing activities	 <u>(811)</u>	 <u>(56,452)</u>
NET CASH (USED) PROVIDED BY OPERATING AND INVESTING ACTIVITIES	 824	 (51,353)
FUND BALANCE WITH TREASURY AND CASH EQUIVALENTS, beginning of year	 <u>37,961</u>	 <u>89,314</u>
FUND BALANCE WITH TREASURY AND CASH EQUIVALENTS, end of year	 <u>\$ 38,785</u>	 <u>\$ 37,961</u>

These financial statements should be read only in connection with
the accompanying summary of significant accounting policies
and notes to financial statements.

**U.S. DEPARTMENT OF TREASURY,
OFFICE OF THRIFT SUPERVISION
STATEMENTS OF BUDGET AND ACTUAL OPERATING EXPENSES
Years Ended December 31, 1995 and 1994
(in thousands)**

<u>1995</u>	<u>Resources</u>	<u>Actual Obligations</u>	<u>Actual Expenses</u>
Compensation	\$ 92,680	\$ 90,184	\$ 89,104
Benefits	40,193	37,771	23,325
Travel and Transportation	10,693	9,995	9,977
Rent, Communication and Utilities	10,331	9,812	9,408
All Other	<u>16,403</u>	<u>13,845</u>	<u>14,845</u>
Totals	<u>\$170,300</u>	<u>\$161,607</u>	<u>\$146,659</u>
<u>1994</u>			
Compensation	\$ 99,507	\$ 96,907	\$ 98,341
Benefits	35,117	33,876	38,864
Travel and Transportation	12,349	11,364	11,370
Rent, Communication and Utilities	11,845	11,528	11,396
All Other	<u>18,316</u>	<u>16,068</u>	<u>16,674</u>
Totals	<u>\$177,134</u>	<u>\$169,743</u>	<u>\$176,645</u>

These financial statements should be read only in connection with
the accompanying summary of significant accounting policies
and notes to financial statements.

**U.S. DEPARTMENT OF TREASURY,
OFFICE OF THRIFT SUPERVISION
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
December 31, 1995 and 1994**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Office of Thrift Supervision (OTS) was created when the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) abolished the Federal Home Loan Bank Board and transferred all examination and supervisory activities to OTS under the Department of Treasury. OTS' primary functions are to: (1) charter federal savings and loan associations; (2) adopt regulations governing the operation of the thrift industry; (3) conduct examinations of federal and state chartered savings institutions and their holding companies; and (4) supervise compliance with federal laws and regulations and OTS directives (i.e., take measures as needed to enforce such compliance and rehabilitate troubled institutions).

FIRREA provided that OTS make assessments to recapture its operating costs. Assessments are based on OTS' budget and are collected from savings and loans.

Assumed capital in the financial statements is the net assets assumed from the Federal Home Loan Bank Board by OTS at inception, October 8, 1989, in accordance with FIRREA.

BASIS OF PRESENTATION

OTS is operated substantially as a commercial enterprise and records its calendar year transactions on an accrual basis in accordance with generally accepted accounting principles (GAAP) and the applicable provisions of OMB Bulletin 94-01 "Form and Content of Agency Financial Statements." OTS receives no appropriated monies from the federal government and financial activities are recorded on an agency-wide basis versus a program or fund basis.

CASH EQUIVALENTS

OTS considers its Overnight Treasury Securities as cash equivalents.

INVESTMENTS

Effective January 1, 1994, OTS adopted Statement of Financial Accounting Standards No. 115, "Accounting for Investments in Certain Debt and Equity Securities". Under the statement, OTS is required to classify investment securities under three categories: trading, available for sale, or held to maturity. All of OTS investments consist of U.S. Treasury obligations for which OTS has the positive intent and ability to hold to maturity. Therefore, all investments are classified as held to maturity and are stated at amortized cost. Premiums and discounts are amortized over the term of the investment using the straight-line method.

This information is an integral part of the
accompanying financial statements.

**U.S. DEPARTMENT OF TREASURY,
OFFICE OF THRIFT SUPERVISION
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
December 31, 1995 and 1994**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

POST RETIREMENT BENEFITS

OTS provides certain health and life benefits for all retired employees that meet eligibility requirements. Effective January 1, 1993, OTS adopted Financial Accounting Standards Board (FASB) Statement No. 106 to account for its share of the costs of those benefits. Under this statement, OTS' share of the estimated costs that will be paid after retirement is being accrued by charges to expense over the employee's active service periods to the dates that they are fully eligible for benefits, except that OTS has elected to amortize the transition amount (unfunded cost at January 1, 1993) over 20 years beginning in 1993 in accordance with the option available in the statement. Prior to 1993, OTS expensed its share of the costs as claims were incurred by the retirees and as premiums were paid by OTS.

Pursuant to an agreement with the Office of Personnel Management (OPM) in 1994, OTS agreed to pay a one-time fee to OPM in consideration of OPM assuming the health care portion of the Post Retirement Plan liability.

ANNUAL, SICK, AND OTHER LEAVE

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. The balance in the accrued annual leave account reflects current pay rates. Sick leave and other types of nonvested leave are charged to operating costs as taken.

DEPRECIATION AND AMORTIZATION

Fixed assets in excess of \$5,000 are capitalized. Depreciation is computed on a straight-line basis over the estimated useful lives as follows:

Building	50 years
Furniture, fixtures, and equipment	5 years

INCOME TAXES

As an agency of the U.S. Department of Treasury, OTS is exempt from all federal and state taxes based on income.

This information is an integral part of the
accompanying financial statements.

U.S. DEPARTMENT OF TREASURY,
OFFICE OF THRIFT SUPERVISION
NOTES TO FINANCIAL STATEMENTS
December 31, 1995 and 1994
(dollar amounts in thousands)

NOTE 1 - CASH AND CASH EQUIVALENTS

OTS invests its cash in overnight Treasury Securities and at the FHLB of Des Moines. They are stated at cost at December 31, 1995 and 1994 as follows:

	1995	1994
Cash	\$ 135	\$ 318
Cash Equivalents	38,650	37,643
Total Cash and Cash Equivalents	\$ 38,785	\$ 37,961

NOTE 2 - INVESTMENTS

Investment securities reflect maturities through December 1996. The amortized cost and fair value of investment securities as of December 31, 1995 and 1994, is summarized as follows:

	1995	1994
Government securities:		
Investments, at cost	\$ 55,317	\$ 54,808
Amortized discount (premium)	(172)	63
Investments, net	\$ 55,145	\$ 54,871
Market Value	\$ 55,202	\$ 54,292

Management intends to hold these securities to maturity. Stated interest rates range from approximately 6.1% to 6.9%.

Effective January 1, 1994, OTS adopted Statement of Financial Accounting Standard No. 115, "Accounting for Investments in Certain Debt and Equity Securities". OTS did not have any investments at January 1, 1994, and there is no effect on net position as a result of adopting this new statement.

NOTE 3 - PROPERTY AND EQUIPMENT

The land and building owned by the Federal Home Loan Bank Board was transferred to OTS under FIRREA. OTS also assumed all furniture, fixtures, and equipment transferred to OTS (from FHLBB). These assets were carried over at their existing value as recorded in the Federal Home Loan Bank Board's accounting records. Other fixed assets acquired subsequent to that date are recorded at cost when acquired.

This information is an integral part of the
accompanying financial statements.

U.S. DEPARTMENT OF TREASURY,
OFFICE OF THRIFT SUPERVISION
NOTES TO FINANCIAL STATEMENTS
December 31, 1995 and 1994
(dollar amounts in thousands)

NOTE 3 - PROPERTY AND EQUIPMENT (Continued)

OTS' property and equipment is comprised of the following at December 31, 1995 and 1994:

	1995	1994
Land	\$ 7,101	\$ 7,101
Building	47,802	47,625
Furniture, Fixtures, and Equipment	6,282	9,760
Total Cost	61,185	64,486
Accumulated Depreciation:		
Building	(15,336)	(14,331)
Furniture, Fixtures, and Equipment	(4,802)	(7,291)
Property and Equipment, net	\$ 41,047	\$ 42,864

NOTE 4 - WORKERS' COMPENSATION

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered 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 OTS' employees under FECA are administered by the U.S. Department of Labor (DOL) and are ultimately paid by OTS. These future workers' compensation estimates were generated by DOL from an application of actuarial procedures developed to estimate the liability for FECA benefits. This DOL estimated actuarial liability for FECA benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability was determined using the paid losses extrapolation method calculated over the next 23-year period. This method utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. These annual benefit payments have been discounted to present value using the discount rate of 7% in year one and thereafter. Based on information provided by the DOL, the U.S. Department of the Treasury determined that the estimated liability of OTS as of December 31, 1995 and 1994, was \$3,294 and \$3,233, respectively. Changes in the actuarial liability related to FECA are reflected as reductions or increases in benefits expense in the appropriate year.

Other Accrued Liabilities include outstanding charges from the FECA Program at December 31, 1995 and 1994 were \$481 and \$484, respectively.

This information is an integral part of the
accompanying financial statements.

U.S. DEPARTMENT OF TREASURY,
OFFICE OF THRIFT SUPERVISION
NOTES TO FINANCIAL STATEMENTS
December 31, 1995 and 1994
(dollar amounts in thousands)

NOTE 5 - OTHER ACCRUED LIABILITIES

Other accrued liabilities are comprised of the following at December 31, 1995 and 1994:

	<u>1995</u>	<u>1994</u>
Intragovernmental liabilities:		
Federal Employee Retirement System	\$ 237	\$ 237
Workers' Compensation	965	484
Other	352	277
	<u>1,554</u>	<u>998</u>
Governmental liabilities:		
Payroll and withholding	3,384	4,467
Relocations	111	488
Goods and Services	2,799	4,653
Other	261	178
	<u>6,555</u>	<u>9,786</u>
Total Other Accrued Liabilities	<u>\$ 8,109</u>	<u>\$ 10,784</u>

NOTE 6 - POST-RETIREMENT BENEFIT PLAN

OTS sponsors a life insurance plan (the Plan) for all employees that meet eligibility requirements. OTS funds benefit costs principally on a pay-as-you-go basis, with retiree contributions that are adjusted annually based on factors, some of which are discretionary. The Plan is unfunded, with Plan participants paying a portion of the costs. As stated in the summary of significant accounting policies, OTS changed its accounting policy with respect to the Plan as of January 1, 1993. OTS elected to defer recognition of the Plan's transition obligation of \$81,125 at January 1, 1993, and amortize such obligation over twenty years on a straight-line basis.

A Memorandum of Understanding (MOU) was signed in December 1994, between the Office of Personnel Management (OPM) and the OTS. The purpose of the MOU was to implement legislation permitting annuitants who retired from OTS prior to January 1995, and who were enrolled in the OTS health plan, to enroll in the Federal Employees Health Benefits Program (FEHB) for coverage effective on or after January 8, 1995. The OTS agreed to pay a one-time fee to the OPM of \$10,993 in consideration of OPM assuming the health portion of the Post Retirement Plan liability. In accordance with FASB 106, the agreement with OPM constitutes a settlement and, accordingly, OTS has recognized a gain on the settlement of \$16,694. Such gain includes the health portion of the transition obligation that OTS elected to initially recognize over 20 years in 1993. The Post Retirement Liability of \$3,554 in the Statements of Financial Position at December 31, 1995, represents OTS' remaining liability for participants future life benefits.

This information is an integral part of the
accompanying financial statements.

U.S. DEPARTMENT OF TREASURY,
OFFICE OF THRIFT SUPERVISION
NOTES TO FINANCIAL STATEMENTS
December 31, 1995 and 1994
(dollar amounts in thousands)

NOTE 6 - POST-RETIREMENT BENEFIT PLAN (Continued)

Net periodic post-retirement benefit cost for both health care and life insurance provisions in 1994, and for life insurance provisions in 1995, under the Plan included the following components for the years ended December 31, 1995 and 1994:

	<u>1995</u>	<u>1994</u>
Service cost-benefits attributable to service during the year	\$ 498	\$ 5,067
Interest on accumulated post-retirement benefit obligation	573	6,525
Amortization of transition obligation	<u>298</u>	<u>4,056</u>
Net Post-retirement Benefit Expense	<u>\$ 1,369</u>	<u>\$15,648</u>

The following table sets forth the Plan's funded status reconciled with the liability recognized in the Statements of Financial Position. The 1994 amounts reflect the settlement of the health insurance portion of the Plan at December 31, 1994:

	<u>1995</u>	<u>1994</u>
Accumulated post-retirement benefit obligation:		
Retirees	(\$ 3,930)	(\$ 3,376)
Other fully eligible participants	(2,728)	(2,514)
Other active participants	<u>(3,240)</u>	<u>(2,372)</u>
	(9,898)	(8,262)
Plan assets	<u>-</u>	<u>-</u>
Accumulated post-retirement benefit obligation in excess of plan assets	(9,898)	(8,262)
Unrecognized transition obligation	5,069	5,367
Unrecognized net gain	<u>1,275</u>	<u>554</u>
Obligations included in Statements of Financial Position	<u>(\$ 3,554)</u>	<u>(\$ 2,341)</u>

The weighted average discount rate used in estimating the accumulated post-retirement benefit obligation at December 31, 1995 and 1994 was 7%.

This information is an integral part of the
accompanying financial statements.

U.S. DEPARTMENT OF TREASURY,
OFFICE OF THRIFT SUPERVISION
NOTES TO FINANCIAL STATEMENTS
December 31, 1995 and 1994
(dollar amounts in thousands)

NOTE 7 - RENTAL INCOME

OTS leases a portion of its building space to retailers under noncancellable operating leases expiring at various dates through 2009. The leases provide for annual base rent, some of which are subject to annual increases based upon changes in the Consumer Price Index or a percentage of sales in excess of a specified amount.

OTS also subleases some of its existing unused leased facilities and these amounts are included below. The future minimum rentals to be received under both noncancellable operating lease arrangements are as follows:

Year ending December 31:

	<u>LEASES</u>	<u>SUB-LEASES</u>	<u>TOTAL</u>
1996	\$ 2,020	\$ 886	\$ 2,906
1997	2,099	863	2,962
1998	1,867	472	2,339
1999	550	513	1,063
2000	565	533	1,098
Thereafter	4,135	2,316	6,451
	<u>\$11,236</u>	<u>\$ 5,583</u>	<u>\$16,819</u>

NOTE 8 - RETIREMENT PLANS

OTS has three retirement systems. Two are administered by the federal government's Office of Personnel Management. The third is a private plan administered by the Financial Institutions Retirement Fund (FIRF). The Civil Service Retirement System (CSRS), is currently two-tiered. For employees hired prior to January 1, 1984, OTS withholds approximately 7 percent of their regular earnings. This contribution is then matched by OTS and the sum is transferred to the Civil Service Retirement Fund, from which this employee group will receive retirement benefits.

For employees hired on or after January 1, 1984, with more than five years of service (not necessarily continuous), OTS withholds, in addition to Social Security withholdings, .80 percent of their regular earnings, but matches such withholdings with a 7 percent contribution. At the point such earnings exceed the FICA maximum wages of \$61,200 for 1995, employees covered under this tier of CSRS are required to have 7 percent of their earnings withheld while the agency expense remains at a 7 percent contribution. This second employee group will receive retirement benefits from the CSRS along with the Social Security System, to which they concurrently contribute.

This information is an integral part of the
accompanying financial statements.

U.S. DEPARTMENT OF TREASURY,
OFFICE OF THRIFT SUPERVISION
NOTES TO FINANCIAL STATEMENTS
December 31, 1995 and 1994
(dollar amounts in thousands)

NOTE 8 - RETIREMENT PLANS (Continued)

Beginning in January 1987, all employees hired since January 1, 1984, either as new employees or as having less than 5 years of accumulated service (with a break in service over one year) are included in the new Federal Employee Retirement System (FERS). For such employees, OTS withholds .80 percent of their regular earnings and matches those withholdings with an 11.4 percent contribution. This group of employees will receive benefits from the FERS as well as the Social Security System to which they concurrently contribute.

Pursuant to FIRREA, the Office of Regulatory Activities and the twelve examination districts became part of OTS and OTS assumed the costs of their retirement system, which is part of FIRF. Under this private retirement system, OTS contributes a percentage of total FIRF salary. This percentage varies from year to year and was approximately 10 percent during 1995. Employees do not contribute to FIRF but do contribute to Social Security. Changes in percentages are based on the number of active FIRF OTS employees, the number of people that have retired, and the benefits paid out.

Although OTS funds either all (FIRF) or a portion (CSRS and FERS) of pension benefits under any of the above retirement systems relating to its employees and makes the necessary payroll withholdings, OTS does not account for the assets of either retirement plan nor does it have actuarial data with respect to accumulated plan benefits or the unfunded pension liability relative to its employees. These amounts are reported by the Office of Personnel Management for both government retirement systems and are not allocated to the individual employers.

The retirement expenses incurred for all plans during 1995 and 1994, was \$5,181 and \$3,313, respectively, which is included in benefits expense on the accompanying statements of operations and changes in net position. In 1995 and 1994, due to changes in retirement plan provisions of the Internal Revenue Code and net actuarial experience gains, OTS was not required to fund the FIRF plan. Accordingly in 1995 and 1994, benefit expense were reduced and prepaid assets increased by approximately \$4,000 and \$6,900 for the net effect of these changes.

As part of FIRREA, OTS assumed the Deferred Compensation Plans of the employees working for the FHLBs of Dallas and San Francisco. These plans allowed employees to defer a portion of their income and OTS discontinued any deferrals or employer matches to these plans effective January 1, 1991. Benefits were intended to be provided by cash value of life insurance policies with Mutual Benefit Life (MBL) which went into rehabilitation on July 16, 1991. The cash value of those policies was \$69 greater than OTS' liability in 1995 and \$202 less than OTS' liability in 1994.

This information is an integral part of the
accompanying financial statements.

U.S. DEPARTMENT OF TREASURY,
OFFICE OF THRIFT SUPERVISION
NOTES TO FINANCIAL STATEMENTS
December 31, 1995 and 1994
(dollar amounts in thousands)

NOTE 9 - LEASE COMMITMENTS

The OTS conducts a majority of its regional operations in leased facilities under noncancellable operating leases expiring at various dates through 2005. Many of the leases contain a provision to renew at the end of the initial term for an additional one to ten years. The rental payments are based on a minimum rental plus a proportional share of building operating expenses and taxes.

Some of the operating leases provide for rental escalations or stated annual rental increases in the amount of base rent over the lives of the leases. The accompanying statements of operations reflect rent expense on a straight-line basis over the lives of the leases.

The minimum rental commitments, excluding sublease income, under noncancellable operating leases are as follows:

Year ending December 31:	
1996	\$ 5,443
1997	5,414
1998	4,717
1999	4,543
2000	4,444
Thereafter	9,939
	<u>\$34,500</u>

Rent expense was approximately \$6,767 in 1995 and \$8,376 in 1994. Sublease income relating to the above leases was approximately \$1,150 in 1995 and \$1,663 in 1994 and is reported as other revenue.

NOTE 10 - COMBINING STATEMENTS

The Combining Statement described in OMB Bulletin 94-01 is designed to present the information found in the financial statements by major program activities or funds. As the financial activities of OTS are not allocated by programs or funds, but rather on an agency-wide basis, a combining statement is not applicable and is not presented.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

There are numerous legal actions pending against the United States in the U.S. Court of Federal Claims where the claims may be based on actions taken by OTS. The U.S. Department of Justice is defending these cases. In the event that a judgment is rendered against the United States in any of these cases, payment should be made from the U.S. Government's Judgment Fund or from other general appropriations and not by OTS. Therefore, no loss accrual has been made for these cases.

This information is an integral part of the
accompanying financial statements.

**AUDITOR'S REPORT ON
INTERNAL CONTROL STRUCTURE**



AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE

To the Inspector General,
U.S. Department of Treasury

We have audited the financial statements of the U.S. Department of Treasury, Office of Thrift Supervision (OTS) as of and for the year ended December 31, 1995, and have issued our report thereon dated February 28, 1996.

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of OTS is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of OTS for the year ended December 31, 1995, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants and OMB Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of OTS in a separate letter dated February 28, 1996.

Our audit of the principal financial statements of OTS as of and for the year ended December 31, 1995, disclosed the status of the reportable conditions noted during the 1994 audit as follows:

<u>Reportable Conditions</u>	<u>Status</u>
- A group user ID in the accounting application security table allows three employees to share user ID's and precludes individual accountability.	Resolved
- Two human resource managers have access to both payroll and time activity and reporting applications.	Resolved
- There is lack of segregation of duties between the EDP Project Leaders and the Production Control personnel.	Resolved

This report is intended solely for the information and use of the Inspector General of the Department of Treasury, the management of the Office of Thrift Supervision and the Office of Management and Budget. However, this report is a matter of public record and its distribution is not limited.

Brown & Company

Arlington, Virginia
February 28, 1996

**AUDITOR'S REPORT ON
COMPLIANCE WITH LAWS AND REGULATIONS**



To the Inspector General,
U.S. Department of Treasury

AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

We have audited the financial statements of U.S. Department of Treasury, Office of Thrift Supervision (OTS) as of and for the year ended December 31, 1995, and have issued our report thereon dated February 28, 1996.

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws and regulations applicable to OTS is the responsibility OTS' management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of OTS' compliance with certain provisions of applicable laws and regulations. As part of our audit, we also obtained an understanding of management's process for evaluating and reporting on the internal control and accounting systems as required by the Federal Managers' Financial Integrity Act (FMFIA) and compared the material weaknesses reported in the agency's FMFIA report that relate to the financial statements under audit to certain matters involving the internal control structure and its operation found during the evaluation we conducted of the OTS' internal control structure. However, providing an opinion on overall compliance with such provisions was not an objective of our audit of the financial statements. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* and OMB Bulletin 93-06, *Audit Requirements for Federal Financial Statements*.

This report is intended for the information of the Inspector General of the Department of Treasury, the management of the Office of Thrift Supervision and the Office of Management and Budget. However, this report is a matter of public record and its distribution is not limited.

Brown & Company

Arlington, Virginia
February 28, 1996